

**CAQ Holdings Limited and its controlled entities**

**ABN 86 091 687 740**

**Consolidated Annual Financial Report  
for the Year Ended 31 December 2016**

**CAQ Holdings Limited and its Controlled Entities**  
**ABN 86 091 687 740**

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**CAQ Holdings Limited and its Controlled Entities**  
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**DIRECTORS' REPORT**

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The Directors present their report of the consolidated entity consisting of CAQ Holdings Limited and the entities it controlled (“**the Group**”) at the end of, or during the financial year ended 31 December 2016.

**Directors**

The names of the Directors in office at any time during or since the end of the financial year are:

Paul Price  
KC Ong  
Soo Tuck Yoon  
Michael Siu  
Qian Xu  
Ching Chung

**Mr Paul Price**

***Chairman and Non-Executive Director***

Mr Price has extensive experience in corporate and commercial matters and has advised national and international clients on capital raising and structuring issues including Corporations Act and ASX Listing Rule compliance and governance issues. Mr Price’s clients span numerous industry sectors, including resources and energy, manufacturing, professional services, industrial and technology. Mr Price has served as a director of a number of ASX listed companies and is a co-founder of corporate advisory firm Trident Capital. Mr Price is a member of the Australian Institute of Company Directors, AMPLA (the Resources and Energy Law Association) and the Association of Mining and Exploration Companies. Mr Price has a Bachelor of Jurisprudence, a Bachelor of Laws and a Masters of Business Administration, all from the University of Western Australia.

Other directorships in Australian listed companies during the past three financial years are as follows:

- Titanium Sands Limited (formerly Windimurra Vanadium Limited) – Director – appointed on 30 July 2012 and resigned on 16 April 2015
- 333D Limited (formerly Oz Brewing Limited) – Director – appointed on 19 June 2014 and resigned on 25 March 2015
- Northern Manganese Limited – Director – appointed on 7 July 2016.

**Mr KC Ong**

***Non-Executive Director***

Mr Ong has over 25 years of extensive and diverse experience in financial management and business advisory to corporations in Australia and East Asia. He is an alumni from Deakin University, Victoria, holding a Bachelor of Commerce degree and is a Certified Practising Accountant. Mr Ong is a Director of Trident Management Services Pty Ltd.

Other directorships in Australian listed companies during the past three financial years are as follows:

- Rision Limited – Director – appointed on 13 March 2012 and resigned on 2 February 2016
- Iwebgate Limited – Director – appointed on 23 July 2012 and resigned on 9 December 2014
- Titanium Sands Limited (formerly Windimurra Vanadium Limited) – Director – appointed on 30 July 2012 and resigned on 21 January 2015

**Mr Richard Soo (Soo Tuck Yoon)**

***Non-Executive Director***

Mr Soo is of Malaysian nationality and has a Bachelor of Arts Degree from the National University of Malaysia. Mr Soo has 35 years working experience and his experience has been in the areas of Hospitality, Gaming, Trading and Mining Industry. Mr Soo is currently a Director of Leisurematics SdnBhd and also Director of Sinomines (Hong Kong) Limited.

Mr Soo has not held directorships in any other Australian listed companies during the past three financial years.

**CAQ Holdings Limited and its Controlled Entities**  
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**DIRECTORS' REPORT**

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**Mr Michael Siu (Mr Siu Kin Wai)**

***Non-Executive Director***

Mr Siu is an executive Director, Chief Financial Officer and Company Secretary of Beijing Properties (Holdings) Limited (SEHK stock code: 925). Mr Siu is also an independent Non-Executive Director of Agritrade Resources Limited (SEHK stock code: 1131). In addition to this, Mr Siu is a Director of Brilliant Bright Holdings Limited, who is a controlling shareholder of Beijing Properties (Holdings) Limited.

Mr Siu graduated from the City University of Hong Kong with a Bachelor's Degree in Accounting and is a fellow of the Association of Chartered Certified Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales. Mr Siu has extensive experience in financial management and corporate advisory in Asia.

Mr Siu has not held directorships in any other Australian listed companies during the past three financial years.

**Mr Qian Xu**

***Non-Executive Director***

Mr Qian Xu is an Executive Director and Chief Executive Officer of Beijing Properties (Holdings) Limited. Mr Qian is also the General Manager and an Executive Director of the Beijing Enterprises Group Real-Estate Co. Ltd. In addition to this, Mr Qian is a Director of Brilliant Bright Holdings Limited, who is a controlling shareholder of Beijing Properties (Holdings) Limited.

Mr Qian graduated from the Economics and Management Faculty of the Beijing Industrial University with a Bachelor's degree in economics and has obtained his Executive Master of Business Administration degree from Tsinghua University. Mr Qian has extensive experience in mergers and acquisitions, corporate restructuring and financial management in Asia.

Mr Qian has not held directorships in any other Australian listed companies during the past three financial years.

**Mr Ching Chung**

***Executive Director and Deputy Chairman***

Mr Ching has over thirty years' experience investing, operating and managing companies in Hong Kong and China. The industries which he has been involved with include gambling, mining and property development. Mr Ching has established relationships with the China Government and various other Chinese associations.

Mr Ching has not held directorships in any other Australian listed companies during the past three financial years.

**Ms Deborah Ho**

***Company Secretary***

Ms Deborah Ho was appointed as Company Secretary on 2 May 2013. Ms Ho holds a Bachelor of Commerce from Curtin University and is a member of Chartered Secretaries Australia. Ms Ho has over 4 years' experience in company secretarial matters and financial accounting, including preparation of financial statements. Ms Ho also has over 3 years' experience in public practice including auditing of listed and unlisted companies.

**Principal Activities**

The Group's principal activity is property development.

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**DIRECTORS' REPORT**

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**Dividends Paid or Recommended**

No dividends were paid during the year and no recommendation is made as to dividends.

**Commentary on the Results for the Year**

The net loss for the year ended 31 December 2016 was \$2,704,539 compared with a net loss of \$1,323,450 for the previous December 2015 period. During the year, the construction of the Haikou Project was completed and Haikou Peace Base Industry Co. Limited ("HPB") continued to arrange for relevant government agencies to carry out the required completion inspections of the Haikou Project in order to obtain the Official Inspection and Acceptance Certificate ("Certificate"). Due to delays in obtaining the Certificate, the handover to the respective lessees for Factory B and C had not occurred by year end and has impacted on rental income. The Certificate was obtained in late December 2016. The loss for the year is also attributable to an increase in employee costs.

**Review of operations and changes in State of Affairs**

During the year ended 31 December 2016, the construction of the Haikou Project was completed and the final inspections 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 had been completed. HPB has also obtained the Official Inspection and Acceptance Certificate which was required before lessees could move in. In addition to this, HPB had opened two physical jewellery stores under its own brand name Zuanxihui. One store is located in Haikou Meilan Airport Duty-Free Mall and the other in Mission Hills Centreville, Haikou. HPB also has a jewellery e-commerce platform and a jewellery e-store on the JingDong Mall e-commerce platform.

**Likely Developments and Expected Results of Operations**

Likely developments in the operations of the Group and then expected results of those operations in future financial years have not been included in this report as the directors believe on reasonable grounds, that the inclusion of such information would be likely to result in unreasonable prejudice to the Company.

**Environmental Regulations**

The Company's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a State or Territory. Based on the Group's current operations, they are not required to register, nor are they required to report emissions data to the Greenhouse and Energy Data Officer under the National Greenhouse and Energy Reporting Act 2007.

**CAQ Holdings Limited and its Controlled Entities**  
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**DIRECTORS' REPORT**

**Meetings of Directors**

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 31 December 2016, and the numbers of meetings attended by each Director were:

	Directors Meetings		Audit Committee Meetings		Nomination Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B	A	B
P Price	3	3	2	2	*	*	*	*
K C Ong	3	3	2	2	*	*	*	*
R Soo	3	3	*	*	—	—	—	—
M Siu	3	3	2	2	*	*	*	*
Q Xu	3	—	*	*	—	—	—	—
C Chung	3	1	*	*	—	—	—	—

*Notes*

A – Number of meetings held during the time the Director held office during the year.

B – Number of meetings attended.

\* – Not a member of the relevant committee

The Board of Directors also approved 2 circular resolutions during the year ended 31 December 2016 which were signed by all Directors of the Company.

**Share Options**

***Shares under Option***

There are no unissued ordinary shares of CAQ Limited under option at the date of this report (31 December 2015: nil).

***Directors' Share and Option Holdings***

As at the date of this report the interests of the Directors in the shares and options of the Company were:

Director	Ordinary Shares <sup>1</sup>	Options over Ordinary Shares
P D Price	5,270,666	—
K C Ong	1,487,500	—
R Soo	1,000,000	—
M Siu	114,538,500	—
Q Xu	108,628,000	—
C Chung	1,150,000	—

<sup>1</sup> refer to page 8.

**CAQ Holdings Limited and its Controlled Entities**  
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**DIRECTORS' REPORT**

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**Remuneration Report (Audited)**

***Key Management Personnel***

The following persons were key management personnel and specified executives of CAQ Holdings Limited during the financial year:

- Paul Price – Non-Executive Director and Chairman (appointed 2 May 2013)
- KC Ong – Non-Executive Director (appointed 2 May 2013)
- Soo Tuck Yoon – Non-Executive Director (appointed 2 May 2013)
- Michael Siu – Non-Executive Director (appointed 20 April 2015)
- Qian Xu – Non-Executive Director (appointed 20 April 2015)
- Ching Chung – Executive Director and Deputy Chairman (appointed 19 May 2015)

***Remuneration Philosophy***

The performance of the Company depends on the quality of its Directors and other Key Management Personnel and therefore the Company must attract, motivate and retain appropriately qualified industry personnel. The Company embodies the following principles in its remuneration framework:

- provide competitive rewards to attract and retain high calibre Directors and other Key Management Personnel;
- link executive rewards to shareholder value (by the granting of share options);
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

***Remuneration Governance***

The Company has a remuneration committee. The Committee has not used remuneration consultants in determining the remuneration of Key Management Personnel. The compensation of Directors and Key Management Personnel are to be reviewed by the Committee annually. During the year, the members engaged in informal discussions.

The Committee assesses the appropriateness of the nature and amount of remuneration of such persons on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from retention of high quality Directors and other Key Management Personnel. External advice on remuneration matters is sought whenever the Committee deems it necessary but has not been sought during the reporting period. The remuneration of the Directors and other Key Management Personnel is not dependent on the satisfaction of a performance condition other than set out in this report.

The following table shows the gross revenue, results and the share price of the Company at the end of the respective financial years.

	<b>30 June 2012</b>	<b>30 June 2013</b>	<b>30 June 2014</b>	<b>30 June 2015</b>	<b>31 December 2015</b>	<b>31 December 2016</b>
	\$	\$	\$	\$	\$	\$
Revenue	499,001	1,889,150	50,814	138,646	81,665	653,389
Net(loss)/profit	(3,499,875)	(264,452)	(601,908)	293,090	(1,323,450)	(2,704,539)
Share price	2 cents	1 cent *	10.5 cents	16 cents	19 cents	14 cents

\* The Company was suspended from trading on the ASX on 1 October 2012. The price stated is based on the Company's public offer under the Prospectus dated 12 July 2013.

**CAQ Holdings Limited and its Controlled Entities**  
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**DIRECTORS' REPORT**

***Non-Executive Director Remuneration***

The Board seeks to set remuneration of Non-Executive Directors at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is appropriate at this stage of the Group's operations.

The Directors have resolved that Non-Executive Directors' fees are \$48,000 (31 December 2015: \$48,000) per annum for each Non-Executive Director and \$72,000 (31 December 2015: \$72,000) per annum for the Non-Executive Chairman. In addition, Non-Executive Directors are entitled to be paid reasonable travelling, accommodation and other expenses incurred as a consequence of their attendance at meetings of Directors and otherwise in the execution of their duties as Directors.

The maximum annual aggregate directors' fee pool limit is \$400,000, as approved by Shareholders at the 2015 Annual General Meeting.

***Executive Remuneration***

Mr Ching Chung is entitled to a remuneration of \$218,020 per annum with no other benefits. The Board is in the process of determining an executive remuneration policy. At the date of this report, there is currently no performance based remuneration.

The table below disclose the remuneration expense recognised for the group's executive Key Management Personnel.

**(A) Summary of amounts paid to Key Management Personnel**

The table below discloses the compensation of the Key Management Personnel of the Group during the period.

Year	Short-Term		Post employment		Share-Based Payments		Total	Remuneration consisting of options %
	Salary & Fees	Consulting	Termination payments	Super- annuation	Options	Shares		
<b>31 December 2016</b>								
<b>Executive Directors</b>								
C Chung	218,020	-	-	-	-	-	218,020	-
<b>Non-Executive Directors</b>								
P Price	72,000	-	-	-	-	-	72,000	-
KC Ong	48,000	-	-	-	-	-	48,000	-
R Soo	48,000	-	-	-	-	-	48,000	-
M Siu	48,000	-	-	-	-	-	48,000	-
Q Xu	48,000	-	-	-	-	-	48,000	-
	<u>482,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>482,020</u>	<u>-</u>

**CAQ Holdings Limited and its Controlled Entities**  
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**DIRECTORS' REPORT**

**Remuneration Report (Audited) (Continued)**

**(A) Summary of amounts paid to Key Management Personnel (Continued)**

Period 31 December 2015	Short-Term		Post employment		Share-Based Payments		Total	options %	Remuneration consisting of
	Salary & Fees	Consulting	Termination payments	Super- annuation	Options	Shares			
<b>Executive Directors</b>									
C Chung	127,926	-	-	-	-	-	127,926	-	-
<b>Non-Executive Directors</b>									
P Price	36,000	-	-	-	-	-	36,000	-	-
KC Ong	24,000	-	-	-	-	-	24,000	-	-
R Soo	24,000	-	-	-	-	-	24,000	-	-
M Siu	24,000	-	-	-	-	-	24,000	-	-
Q Xu	24,000	-	-	-	-	-	24,000	-	-
	<u>259,926</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>259,926</u>	<u>-</u>	<u>-</u>

**(B) Service agreements**

There are service agreements in place in relation for all Directors.

**(C) Options holdings of key management personnel**

During the year ended 31 December 2016 and to the date of this report, there are no options on issue and therefore no options held by Key Management Personnel.

**(D) Shareholdings of key management personnel**

The movement during the reporting year in the number of ordinary shares of CAQ Holdings Limited held, directly, indirectly or beneficially, by each key management personnel, including their related parties is as follows:

**31 December 2016**

	Balance 1 January 2016	Net Purchased/ (Sold)	Balance 31 December 2016
<b>Directors</b>			
P Price <sup>1</sup>	5,270,666	-	5,270,666
KC Ong <sup>2</sup>	1,487,500	-	1,487,500
R Soo <sup>3</sup>	1,000,000	-	1,000,000
M Siu <sup>4</sup>	113,628,000	910,500	114,538,500
Q Xu <sup>5</sup>	108,628,000	-	108,628,000
C Chung <sup>6</sup>	1,450,000	(300,000)	1,150,000
	<u>231,464,166</u>	<u>610,500</u>	<u>232,074,666</u>

**CAQ Holdings Limited and its Controlled Entities**  
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**DIRECTORS' REPORT**

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**Remuneration Report (Audited) (Continued)**

**(D) Shareholdings of key management personnel (Continued)**

<sup>1</sup> As at 31 December 2016, 3,586,666 shares were held by Trident Capital Pty Ltd, a company which Mr Price is a Director and Shareholder. 1,487,500 shares were held by Milwal Pty Ltd <Price Superannuation Fund>, a company which Mr Price is a Director and Shareholder. 126,500 shares were held by Joshua Price, Mr Price's son. 10,000 shares were held by Madeline Price, Mr Price's daughter. 60,000 shares were held by Elizabeth Price, Mr Price's wife.

<sup>2</sup> As at 31 December 2016, 1,487,500 shares were held by Mr Ong.

<sup>3</sup> As at 31 December 2016, 1,000,000 shares were held by Mr Soo.

<sup>4</sup> As at 31 December 2016, 108,628,000 shares were held by Beijing Properties (Holdings) Limited, a company which Mr Siu is a Director. 5,000,000 shares were held by Kristina Liu, Mr Siu's wife and 910,500 shares were held by Pershing Australia Nominees Pty Ltd (Phillip Securities (HK) A/C), Mr Siu's custodian.

<sup>5</sup> As at 31 December 2016, 108,628,000 shares were held by Beijing Properties (Holdings) Limited, a company which Mr Xu is a Director.

<sup>6</sup> As at 31 December 2016, 1,150,000 shares were held by Mr Chung.

**(E) Loans to or from key management personnel**

There were no loans to or from key management personnel during the year or as at 31 December 2016.

**(F) Other transactions with key management personnel**

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

**CAQ Holdings Limited**

**Legal Fees:**

During the year, Price Sierakowski Pty Ltd ("Price Sierakowski") provided the Company with legal services. Mr Price is a Director and Shareholder of Price Sierakowski. These services provided were based upon normal commercial terms and conditions no more favourable than those available to other parties. As at 31 December 2016 \$5,278 (incl GST) was paid to Price Sierakowski (31 December 2015: \$5,541 (incl GST)). As at 31 December 2016 \$nil (incl GST) was payable to Price Sierakowski (31 December 2015: \$3,439).

**Rental Fees:**

During the year, Trident Capital Pty Ltd ("Trident Capital") provided the Company with office rental services. These services provided were based upon normal commercial terms and conditions no more favourable than those available to other parties Mr Price is a Director and Shareholder of Trident Capital. As at 31 December 2016 \$26,400 (incl GST) was paid to Trident Capital (31 December 2015: \$13,200 (incl GST)). As at 31 December 2016 \$nil was payable to Trident Capital (31 December 2015: \$nil).

**CAQ Holdings Limited and its Controlled Entities**  
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**DIRECTORS' REPORT**

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**Remuneration Report (Audited) (Continued)**

**(F) Other transactions with key management personnel (Continued)**

*CAQ Holdings Limited (Continued)*

Accounting Fees:

During the year, Trident Management Services provided the Company with accounting services. These services provided were based upon normal commercial terms and conditions no more favourable than those available to other parties. As at 31 December 2016 \$18,968 (incl GST) was paid to Trident Management Services (31 December 2015: \$20,094 (incl GST)). As at 31 December 2016 \$844 was payable to Trident Management Services (31 December 2015: \$nil (excl GST)).

Company Secretarial Fees:

During the year, Trident Management Services Pty Ltd ("Trident Management Services") provided the Company with company secretarial services. Mr. Ong is a Director and Shareholder of Trident Management Services. These services provided were based upon normal commercial terms and conditions no more favourable than those available to other parties. As at 31 December 2016 \$52,800 (incl GST) was paid to Trident Management Services (31 December 2015: \$26,400 (incl GST)). As at 31 December 2016 \$4,400 was payable to Trident Management Services (31 December 2015: \$nil (excl GST)).

**(G) Share-based compensation**

The Company has not issued any performance bonus options during the financial year ended 31 December 2016 (31 December 2015: Nil).

**(H) Use of remuneration consultants**

The Company did not employ the services of remuneration consultants during the financial year.

**(I) Voting and comments made at the Company's 2016 Annual General Meeting**

The Company received more than 99% of votes, of those shareholders who exercised their right to vote, in favour of the remuneration reports for the 2016 financial period. The Company did not receive any specific feedback at the AGM or throughout the period on its remuneration practices.

**This is the end of the Audited Remuneration Report.**

**Indemnification of Officers and Auditors**

During the financial year, the Company paid a premium in respect of a contract of insurance insuring the Directors and officers of the Group against certain liabilities specified in the contract. The contract prohibits disclosure of the nature of the liabilities insured and the amount of the premium.

The Group has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Group against a liability incurred as such an officer or auditor.

**CAQ Holdings Limited and its Controlled Entities**  
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**DIRECTORS' REPORT**

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**Non-Audit Services**

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor or a related practice of the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are also satisfied that the provision of non-audit services by the auditor if any, as set out in note 16 to the financial statements, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor's independence as set out in APES 110 Code of Ethics for Professional Accountants.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in this Annual Financial Report.

Details of amounts paid or payable to the auditor, BDO Audit (WA) Pty Ltd and its related practices, for audit and non-audit services provided during the year are set out below.

	<b>31 December 2016</b>	<b>31 December 2015</b>
	\$	\$
<b>BDO Audit (WA)</b>		
<b>1. Audit and other assurance services</b>		
– auditing and reviewing the financial statements	60,350	30,000
<b>2. Other services</b>		
– other <sup>1</sup>	4,740	–
<b>BDO China Shu Lun Pan LLP</b>		
<b>1. Audit and other assurance services</b>		
– auditing and reviewing the financial statements	9,098	17,535
Total remuneration for audit and other assurance services	<u>74,188</u>	<u>47,535</u>

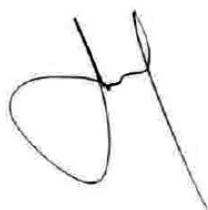
<sup>1</sup> fees and disbursements are in relation to a site visit to China.

**Proceedings on Behalf of the Company**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

The Company was not a party to any such proceedings during the period.

Signed in accordance with a resolution of the Board of Directors:



**Michael Siu**  
*Director*

Dated at Hong Kong this 31st day of March, 2017.

## DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF CAQ HOLDINGS LIMITED

As lead auditor of CAQ Holdings Limited for the year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of CAQ Holdings Limited and the entities it controlled during the period.



**Dean Just**  
Director

**BDO Audit (WA) Pty Ltd**  
Perth, 31 March 2017

## INDEPENDENT AUDITOR'S REPORT

To the members of CAQ Holdings Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of CAQ Holdings Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material uncertainty related to going concern

We draw attention to Note 1 (a) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### Existence & Valuation of Investment Property

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As disclosed in Note 4, the group has a 100% interest in the Haikou project investment property located in Hainan Island, China, and it is carried at cost of \$53,629,831 at 31 December 2016.</p> <p>As the carrying value of the investment property represents a significant asset of the group, we consider it necessary to confirm the existence as well as evaluate management's assessment for indicators of impairment in accordance with AASB 136 Impairment of Assets.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• BDO network component auditors checked a sample of construction costs incurred during the year;</li> <li>• We checked the group's title to the property;</li> <li>• Both BDO network component auditors and BDO Audit (WA) Pty Ltd undertook a site visit; and</li> <li>• We evaluated management's assessment of whether any internal or external indicators of impairment as per AASB 136 Impairment of Assets were in existence including, but not limited to: <ul style="list-style-type: none"> <li>External <ul style="list-style-type: none"> <li>• Comparing of the carrying value of net assets to the market capitalisation of the group; and</li> <li>• Evaluating the rental market in the area where the property is located.</li> </ul> </li> <li>Internal <ul style="list-style-type: none"> <li>• Considering the evidence of obsolescence or physical damage of the property.</li> </ul> </li> </ul> </li> </ul> <p>We have also assessed the adequacy of the related disclosures in Note 1(x) to the financial statements.</p>

### Other information

The directors are responsible for the other information. The other information comprises the unaudited information in the Group's annual report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibilities of the directors for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

[http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf)

This description forms part of our auditor's report.

#### **Report on the Remuneration Report**

##### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 6 to 10 of the directors' report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of CAQ Holdings Limited, for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.



### **Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO Audit (WA) Pty Ltd**

A handwritten signature in purple ink, consisting of the letters 'BDO' on the top line and a stylized signature below it.

**Dean Just**

**Director**

Perth, 31 March 2017

**CAQ Holdings Limited and its Controlled Entities**  
**ABN 86 091 687 740**

**DIRECTORS' DECLARATION**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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The Directors of the Group declare that:

1. The financial statements, comprising the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statements of Changes in Equity, accompanying notes, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (b) give a true and fair view of the financial position as at 31 December 2016 and of the performance for the year ended on that date of the Group.
2. In the Directors' opinion, there are reasonable grounds to believe CAQ Holdings Limited and its controlled entities will be able to pay its debts as and when they become due and payable.
3. Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.
4. The Directors have been given the declarations as required by Section 295A of the Corporations Act for the financial year ending 31 December 2016.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



**Michael Siu**  
*Director*

Dated at Hong Kong this 31st day of March, 2017.

**CAQ Holdings Limited and its Controlled Entities**  
**ABN 86 091 687 740**

**CONSOLIDATED STATEMENT PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	<i>Note</i>	<b>Consolidated Year ended 31 December 2016 \$</b>	<b>Consolidated Period from 1 July 2015 to 31 December 2015 \$ (restated)</b>
Revenue from continuing operations			
Sales	8	380,482	29,750
Other revenue	8	272,907	51,915
<b>Total revenue from continuing operations</b>		<b>653,389</b>	<b>81,665</b>
Cost of sales	8	(307,775)	(20,772)
Foreign currency gain/(loss)		(24,987)	251,259
Legal expenses		(54,835)	(55,220)
Accounting and auditing fees		(107,050)	(58,011)
Directors fees, salary and consultancy expenses		(1,684,280)	(822,670)
Insurance expenses		(35,443)	(19,056)
Occupancy costs		(22,000)	(12,000)
Travel costs		(351,993)	(301,536)
Finance costs	8	(11,668)	(2,117)
Administration expenses		(151,934)	(157,698)
Other expenses		(605,963)	(207,294)
<b>Profit/loss from continuing operations before Income Tax Benefit</b>		<b>(2,704,539)</b>	<b>(1,323,450)</b>
Income tax benefit/(expense)	7	-	-
<b>Profit/(loss) after income tax for the year</b>		<b>(2,704,539)</b>	<b>(1,323,450)</b>

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

**CAQ Holdings Limited and its Controlled Entities**  
**ABN 86 091 687 740**

**CONSOLIDATED STATEMENT PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	<i>Note</i>	<b>Consolidated Year ended 31 December 2016</b>	<b>Consolidated Period from 1 July 2015 to 31 December 2015</b>
		\$	\$ (restated)
<b>Other comprehensive gain</b>			
<i>Items that may be reclassified to the profit or loss</i>			
Exchange differences on foreign currency translation		(2,816,083)	1,056,986
<b>Total comprehensive profit/(loss) for the year</b>		<b>(5,520,622)</b>	<b>(266,464)</b>
Profit/(loss) is attributable to:			
Owners of CAQ Holdings Limited		(2,704,539)	(1,323,450)
Non-controlling interests		-	-
		<b>(2,704,539)</b>	<b>(1,323,450)</b>
Total comprehensive profit/(loss) for the year is attributable to:			
Owners of CAQ Holdings Limited		(5,520,622)	(266,464)
Non-controlling interests		-	-
		<b>(5,520,622)</b>	<b>(266,464)</b>
<b>Earnings/(loss) per share attributable to the members of CAQ Holdings Limited</b>		<b>Cents Per Share</b>	<b>Cents Per Share</b>
Basic and diluted earnings/(loss) per share	21	(0.41)	(0.20)

The above Consolidated Statement of Profit or Loss and other Comprehensive Income should be read in conjunction with the accompanying notes.

**CAQ Holdings Limited and its Controlled Entities**  
**ABN 86 091 687 740**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2016**

	<i>Note</i>	<b>Consolidated 31 December 2016</b> \$	<b>Consolidated 31 December 2015</b> \$ (restated)
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	<i>9</i>	1,497,816	18,347,477
Trade and other receivables	<i>10</i>	1,008,395	2,415,112
Inventory	<i>6</i>	1,255,247	293,451
Prepayments		104,925	93,260
<b>TOTAL CURRENT ASSETS</b>		<b>3,866,383</b>	<b>21,149,300</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant & equipment	<i>5</i>	661,426	586,536
Investment property	<i>4</i>	53,629,831	44,898,570
Intangibles		122,565	84,745
<b>TOTAL NON-CURRENT ASSETS</b>		<b>54,413,822</b>	<b>45,569,851</b>
<b>TOTAL ASSETS</b>		<b>58,280,205</b>	<b>66,719,151</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>11</i>	1,108,678	346,772
Borrowings	<i>12</i>	1,772,881	5,453,111
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,881,559</b>	<b>5,799,883</b>
<b>TOTAL LIABILITIES</b>		<b>2,881,559</b>	<b>60,919,268</b>
<b>NET ASSETS</b>		<b>55,398,646</b>	<b>60,919,268</b>
<b>EQUITY</b>			
Contributed equity	<i>13</i>	62,102,608	62,102,608
Accumulated losses		(7,072,128)	(4,367,589)
Reserves	<i>14</i>	368,166	3,184,249
<b>TOTAL EQUITY</b>		<b>55,398,646</b>	<b>60,919,268</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

**CAQ Holdings Limited and its Controlled Entities**  
**ABN 86 091 687 740**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Contributed equity \$	Accumulated losses \$	Foreign Currency Translation Reserve \$	Total \$
<b>Balance at 1.1.2016 (Consolidated) (restated)</b>	<b>62,102,608</b>	<b>(4,367,589)</b>	<b>3,184,249</b>	<b>60,919,268</b>
Profit for the year	–	(2,704,539)	–	(2,704,539)
Movement of foreign exchange reserve	–	–	(2,816,083)	(2,816,083)
<b>Total comprehensive income/(loss) for the period</b>	<b>–</b>	<b>(2,704,539)</b>	<b>(2,816,083)</b>	<b>(5,520,622)</b>
<b>Transactions with owners in their capacity as owners:</b>				
<b>Balance at 31.12.2016 (Consolidated)</b>	<b>62,102,608</b>	<b>(7,072,128)</b>	<b>368,166</b>	<b>55,398,646</b>
	Contributed equity \$	Accumulated losses \$	Foreign Currency Translation Reserve \$	Total \$
<b>Balance at 1.7.2015 (Consolidated) (as previously stated)</b>	<b>62,102,608</b>	<b>(1,464,511)</b>	<b>2,127,263</b>	<b>62,765,360</b>
Prior year adjustment for accounting policy change	–	(1,579,628)	–	(1,579,628)
(Loss) for the year	–	(1,323,450)	–	(1,323,450)
Movement of foreign exchange reserve	–	–	1,056,986	1,056,986
<b>Total comprehensive income/(loss) for the period</b>	<b>–</b>	<b>(1,323,450)</b>	<b>1,056,986</b>	<b>(266,464)</b>
<b>Transactions with owners in their capacity as owners:</b>				
Issue of Shares (net of issue costs)	–	–	–	–
<b>Balance at 31.12.2015 (Consolidated)</b>	<b>62,102,608</b>	<b>(4,367,589)</b>	<b>3,184,249</b>	<b>60,919,268</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**CAQ Holdings Limited and its Controlled Entities**  
**ABN 86 091 687 740**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	<i>Note</i>	Consolidated 31 December 2016 \$	Consolidated 31 December 2015 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		386,272	29,750
Government subsidy		202,179	39,074
Payments to suppliers and employees		(3,334,873)	(2,177,489)
Finance costs		(122,301)	(2,117)
Interest received		28,876	12,838
Deposit refund		400,204	–
<b>Net cash outflow from operating activities</b>	<i>20</i>	<b>(2,439,643)</b>	<b>(2,097,944)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of items of property, plant and equipments		(341,410)	(538,789)
Payment for intangible assets		(90,832)	(100,718)
Payment of construction costs		(10,795,454)	(14,539,648)
<b>Net cash outflow from investing activities</b>		<b>(11,227,696)</b>	<b>(15,179,155)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Deposit refund		–	1,128,006
(Advance to)/Repayment from to constructor		965,286	(1,266,624)
Proceeds from borrowings		1,706,968	4,448,919
Repayment of borrowings		(5,227,304)	(8,908,027)
<b>Net cash inflow from financing activities</b>		<b>(2,555,050)</b>	<b>(4,597,726)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(16,222,389)</b>	<b>(21,874,825)</b>
Cash and cash equivalents at the beginning of the financial year		18,347,477	37,947,068
Effects of exchange rate changes on cash and cash equivalents		(627,272)	2,275,234
<b>Cash and cash equivalents at end of year</b>	<i>9</i>	<b>1,497,816</b>	<b>18,347,477</b>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

**CAQ Holdings Limited and its Controlled Entities**  
**ABN 86 091 687 740**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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**Note 1: Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of CAQ Holdings Limited and its controlled entities. The consolidated entity is a for-profit entity.

**(a) Basis of preparation**

This annual financial report is a general purpose financial report that has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and Interpretations used by the Australian Accounting Standards Board. CAQ Holdings Limited is a for profit entity for the purposes of preparing financial statements.

*Compliance with IFRS*

The annual financial report of the Group also complies with International Financial Reporting Standards (IFRS).

*Historical cost convention*

This annual financial report has also been prepared on an accrual basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

*Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The following key judgements and estimates were made in preparing these financial statements:

*Construction costs of investment properties*

The construction costs of the Haikou Project is based on a draft settlement which is subject to the review and approval of both the Company and the contractors. The Company has recorded all amounts due to the contractors based on its best estimate. Should the settlement result in a higher amount, the Company would have to settle this additional liability.

**CAQ Holdings Limited and its Controlled Entities**  
**ABN 86 091 687 740**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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**Note 1: Summary of significant accounting policies (Continued)**

**(a) Basis of preparation (Continued)**

*Going Concern:*

The Group has incurred a net loss after tax for the year ended 31 December 2016 of \$2,704,539 (6 months 2015: \$1,323,450) and experienced net cash outflows to operating activities of \$2,439,643 (6 months 2015: \$2,097,944). At 31 December 2016, the Group had net assets of \$55,398,646 (2015: \$60,919,268).

The ability of the entity to continue as a going concern is dependent on securing additional funding through debt or equity issues as and when the need arises to raise working capital, to continue to fund its planned operational activities.

These conditions indicate a material uncertainty that may cast a significant doubt about the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management has prepared a cash flow forecast for a period of 12 months beyond the sign off date of this financial report and believes there are sufficient funds to meet the entity's working capital requirements as at the date of this report. However, the Company will be required to raise additional funds through debt or equity issues to continue with operations at their current rate. The Group are also in the process of seeking suitable tenants to occupy its Haikou Investment Property which will generate cash inflows.

The financial statements have been prepared on the basis that the entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- The Group has a recent proven history of successfully raising capital;
- The Directors believe that there is sufficient cash available for the Group to continue operating until it can raise sufficient further capital to fund its ongoing activities;
- The Company currently has a bank loan facility for RMB15,000,000 (equivalent to approximately AUD3,001,531), expiring at the end of March 2017. As at 31 December 2016, the bank loan facility had been drawn down by RMB2,000,000 (equivalent to approximately AUD400,204). The Company is in the process for applying for a new loan facility with Citic Bank for at least RMB40,000,000 (equivalent to approximately AUD8,004,082).
- The Directors believe that they can enter in to commercially viable rental agreements to generate cash inflows; and
- Cash spending can be reduced or slowed below its current rate if required.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

**CAQ Holdings Limited and its Controlled Entities**  
**ABN 86 091 687 740**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

---

**Note 1: Summary of significant accounting policies (Continued)**

**(a) Basis of preparation (Continued)**

*income taxes*

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets, when recognised, are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered.

Recognition therefore involves judgement regarding the future financial performance of the Group and it has been concluded that no deferred tax assets or carry forward losses will be recognised for the year ended 31 December 2016.

**(b) Principles of consolidation**

*Subsidiaries*

Subsidiaries are entities controlled by the Company. The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Consolidated Entity, being CAQ Holdings Limited (“**Company**” or “**Parent Entity**”) and its subsidiaries as defined in AASB 10: Consolidated Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of the subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity. Acquisitions of entities are accounted for using the acquisition method of accounting.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions are eliminated in full.

Investments in subsidiaries are accounted for at cost in the annual financial report of CAQ Holdings Limited.

*Changes in ownership interest*

The Group treats transactions with non-controlling interests that does not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interest and any consideration paid or received is recognised in a separate reserve within equity attributable to the owners of CAQ Holdings Limited.

**CAQ Holdings Limited and its Controlled Entities**  
**ABN 86 091 687 740**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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**Note 1: Summary of significant accounting policies (Continued)**

**(b) Principles of consolidation (Continued)**

*Asset acquisition*

On the acquisition of a subsidiary, the purchase method of accounting is used whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition.

**(c) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of CAQ Holdings Limited.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

**(d) Foreign currency translation**

**(i) Functional and presentation currency**

The financial statements are presented in Australian dollars, which is CAQ Holdings Limited's functional and presentation currency.

The function currency of the Company's subsidiaries is as follows:

<b>Name</b>	<b>Functional Currency</b>
CAQ Diamond Network Limited	Hong Kong dollars
CAQ Diamond Network (HK) Limited	Hong Kong dollars
CAQ Finance Limited	Hong Kong dollars
CAQ Finance (HK) Limited	Hong Kong dollars
Rayport Limited	Hong Kong dollars
Peace Base Holdings Limited	Hong Kong dollars
Actual Winner Limited	Hong Kong dollars
Express Linker Limited	Hong Kong dollars
Haikou Peace Base Industry Development Co. Ltd.	Chinese Renminbi

**(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Profit or Loss and Other Comprehensive Income, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

**CAQ Holdings Limited and its Controlled Entities**  
**ABN 86 091 687 740**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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**Note 1: Summary of significant accounting policies (Continued)**

**(d) Foreign currency translation (Continued)**

*(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position;
- income and expenses for each Statement of Profit or Loss and Other Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the Statement of Profit or Loss and Other Comprehensive Income, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

**(e) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*(i) Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

*(ii) Interest income*

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

**(f) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary difference arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the Statement of Financial Position date and are expected to apply when the deferred income tax asset is realised or the deferred income tax liability is settled.

**CAQ Holdings Limited and its Controlled Entities**  
**ABN 86 091 687 740**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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**Note 1: Summary of significant accounting policies (Continued)**

**(f) Income tax (Continued)**

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

CAQ Holdings Limited have implemented the tax consolidation legislation.

**(g) Goods and Services tax**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**(h) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 1: Summary of significant accounting policies (Continued)**

**(h) Leases (Continued)**

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the lease term. Lease incentives are recognised in the Statement of Profit or Loss and Other Comprehensive Income as an integral part of the total lease expense.

**(i) Cash and cash equivalents**

Cash and short-term deposits in the Consolidated Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**(j) Trade and other receivables**

Trade receivables, which generally have 30-60 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

**(k) Inventory**

Inventories are stated at the lower of cost and net realisable value. Purchase cost of inventory is on a weighted average basis, after deducting any settlement discounts, suppliers rebates and including logistics expenses incurred in bringing inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**(l) Investments and other financial assets**

**(i) Recognition**

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

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**Note 1: Summary of significant accounting policies (Continued)**

**(l) Investments and other financial assets (Continued)**

*(iii) Fair value*

Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

*(iv) Impairment of financial assets*

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

**Investment Property**

Completed investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. All properties are measured initially at cost, including transaction costs. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of material and direct labour and any other cost directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Investment properties are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Refer to note 1(x) for the impact of this change of accounting policy.

Any gains or losses on the retirement or disposal of a completed investment properties or an investment properties under construction are recognised in profit or loss in the period of the retirement or disposal.

**(m) Property, plant and equipment**

Property, plant and equipment are brought to account at cost or at independent or Directors' valuation, less where applicable any accumulated depreciation or amortisation. The carrying amount of property, plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of expected net cash flows which will be received from the assets employment and subsequent disposal.

The gain or loss on disposal of all fixed assets, including revalued assets, is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in the Statement of Profit or Loss and Other Comprehensive Income. Any realised revaluation increment relating to the disposed asset which is included in the revaluation reserve is transferred to retained earnings.

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, are depreciated over their useful lives commencing from the time the asset is held ready for use.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 1: Summary of significant accounting policies (Continued)**

**(m) Property, plant and equipment (Continued)**

The depreciation rates used for each class of depreciable assets are:

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Buildings on leasehold land	3%
Plant and equipment	5 – 40%

**(n) Impairment of assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs.

When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**(o) Trade and other payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 1: Summary of significant accounting policies (Continued)**

**(p) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

*Borrowing costs*

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period to get ready for their intended use or sale.

**(q) Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in Statement of Profit or Loss and Other Comprehensive Income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

**(r) Employee benefits**

*(i) Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

*(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

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**Note 1: Summary of significant accounting policies (Continued)**

**(r) Employee benefits (Continued)**

**(iii) Share-based payments**

The Company provides benefits to employees (including Directors) in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (“**equity-settled transactions**”).

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using a Binomial option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“**vesting date**”).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired; and (ii) the number of options that, in the opinion of the Directors of the Company, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted the cancelled and new award are treated as if they were a modification of the original award.

**(s) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(t) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

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**Note 1: Summary of significant accounting policies (Continued)**

**(u) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

*(i) AASB 9 Financial Instruments:*

This standard amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. Under AASB 9, there are three categories of financial assets:

- Amortised cost
- Fair value through profit or loss
- Fair value through other comprehensive income.

AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.

Adoption of AASB 9 is only mandatory for the year ending 31 December 2018. The Group has not yet made an assessment of the impact of these amendments.

*(ii) IFRS 15 Revenue from Contracts with Customers:*

An entity will recognise revenue to depict the transfer of promised good or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue.

Due to the recent release of this standard, the Group has not yet made a detailed assessment of the impact of this standard.

*(iii) AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*

This amends AASB 101 Presentation of Financial Statements to clarify that:

- Materiality applies to all primary financial statements and notes, and applies even to a list of specific, minimum disclosures;
- Line items can be disaggregated if doing so could influence a user's decision;
- Subtotals must be made up of items recognised in accordance with Australian Accounting Standards. Additional subtotals in the Statement of Profit or Loss and Other Comprehensive Income must be reconciled back to subtotals required by AASB 101
- Notes no longer need to follow the order of items in the financial statements and related items can be grouped together (e.g. all financial instruments)
- Accounting policies can be placed at the end of the notes to the financial statements
- Share of other comprehensive income of associates and joint ventures must be separately classified into amounts that will be reclassified to profit or loss in future, and amounts that will not be reclassified to profit or loss in future.

These amendments affect presentation and disclosures only. Therefore on first time adoption of these amendments on 1 January 2017, comparatives will need to be restated in line with presentation and note ordering.

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**Note 1: Summary of significant accounting policies (Continued)**

**(u) New accounting standards and interpretations (Continued)**

*(iv) AASB 16 Leases (issued February 2016)*

AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases. There are some optional exemptions for leases with a period of 12 months or less and for low value leases.

Due to recent release of this standard the company has not yet made an assessment of the impact.

The application date of this standard is for annual reporting periods beginning on or after 1 January 2019.

**(v) Segment reporting**

The Group operates in the property investment industry. Accordingly the financial information reported elsewhere in this financial report is representative of the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

**(x) Voluntary change in accounting policy**

The consolidated statements have been prepared on the basis of a retrospective application of a voluntary change in accounting policy relating to Investment Property. The previous accounting policy was to account for Investment Property at fair value. The company has determined that in accordance with AASB 116 Property, Plant and Equipment paragraph 53 that the cost model is a more appropriate method of accounting for Investment Property during construction and in the early stages of completion. The change in accounting policy is shown in the tables below:

**Consolidated Balance Sheet (Extract)**

	<b>31/12/2015</b>	<b>Increase/</b>	<b>31/12/2015</b>
	<b>Previous policy</b>	<b>(Decrease)</b>	<b>Restated</b>
Investment Property	46,442,896	(1,544,326)	44,898,570
Deferred Tax liability	386,081	(386,081)	–
Net Assets	62,077,513	(1,158,245)	60,919,268
Accumulated losses	(3,209,344)	(1,158,245)	(4,367,589)
Net Equity			

**Consolidated Income Statement (Extract)**

Fair value movement	561,844	(561,844)	–
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The impact of the retrospective change in accounting policy had no material impact on the reported period ended 30 June 2015.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 2: Financial risk management**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed.

Risk management is carried out by the Board of Directors with assistance from suitably qualified external advisors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and liquidity risk. Further policies will evolve that are commensurate with the evolution and growth of the Company.

The carrying values of the Group's financial instruments are as follows:

	<b>Consolidated 31 December 2016 \$</b>	<b>Consolidated 31 December 2015 \$</b>
<b>Financial assets</b>		
Cash and cash equivalents	1,497,816	18,347,477
Trade and other receivables	1,008,395	2,415,112
Prepayments	104,925	93,260
	<b>2,611,136</b>	<b>20,855,849</b>
<b>Financial liabilities</b>		
Trade and other payables	1,043,081	271,891
Employee benefits payable	65,597	74,881
Loans payable	1,372,677	5,453,111
Bank loans	400,204	–
	<b>2,881,559</b>	<b>5,799,883</b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 2: Financial risk management (Continued)**

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising for the Group are foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

**(a) Market risk**

**(i) Foreign exchange risk**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China, the Group's statement of financial position can be affected significantly by movements in the USD, RMB and HKD exchange rate.

The Group's exposure to foreign currency risk is as follows:

	CURRENCY 1 <i>USD</i>	CURRENCY 2 <i>RMB</i>	CURRENCY 3 <i>HKD</i>
2016			
Cash and cash equivalents	12	265	631,715
<b>Net Exposure</b>	<b>12</b>	<b>265</b>	<b>631,715</b>

At 31 December 2016, foreign currency risk of the subsidiary with functional currency in RMB arose mainly from bank balances denominated in HKD. It is estimated that if RMB has strengthened/weakened against HKD by 5% at 31 December 2016, the Group's profit for the period would decrease/increase by approximately AUD5,654 (31 December 2015: AUD269,511).

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HKD/RMB exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

		+ 5% HKD/RMB		- 5% HKD/RMB	
		Carrying amount <i>AUD</i>	Profit & Loss <i>AUD</i>	Other comprehensive income <i>AUD</i>	Profit & Loss <i>AUD</i>
<b>Consolidated</b>					
<b>- as at December 2016</b>					
Cash and cash equivalents	113,073	5,654	-	(5,654)	-
Net exposure to interest rate risk		<b>5,654</b>	<b>-</b>	<b>(5,654)</b>	<b>-</b>

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**Note 2: Financial risk management (Continued)**

**(a) Market risk (Continued)**

*(ii) Cash flow and interest rate risk*

The Group is exposed to interest rate risk due to variable interest being earned on its interest-bearing bank accounts.

As at the end of the reporting period, the Group had the following interest-bearing financial instruments:

	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>Effective</b>	<b>Balance</b>	<b>Effective</b>	<b>Balance</b>
	<b>interest rate</b>	<b>\$</b>	<b>interest rate</b>	<b>\$</b>
<b>Financial Assets</b>				
Cash and cash equivalents	1.50%	1,497,816	1.50%	18,347,477
<b>Financial Liabilities</b>				
Loans payable	6%	1,372,677	4.35%	5,453,111
Loans payable – China Citic Bank	5.655%	400,204	–	–
Net exposure to interest rate risk		<b>(275,065)</b>		<b>12,894,366</b>

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to Directors and represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Company's net revenue would decrease by \$1,375 and increase by \$1,375 respectively (31 December 2015: \$64,472).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 2: Financial risk management (Continued)**

**(b) Credit risk**

Credit risk is managed by the Board and arises from cash and cash equivalents as well as credit exposure including outstanding receivables and committed transactions.

All cash balances held at banks are held at internationally recognised institutions. There are no formal credit approval processes and risk management in place.

The maximum exposure to credit risk at reporting date is the carrying amount of the financial assets as summarised at the start of Note 2. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about default rates.

Financial assets that are neither past due and not impaired are as follows:

	<b>Consolidated</b> <b>31 December</b> <b>2016<sup>1</sup></b> \$	<b>Consolidated</b> <b>31 December</b> <b>2015</b> \$
Cash and cash equivalents	<u>1,497,816</u>	<u>18,347,477</u>

<sup>1</sup> The cash and cash equivalents are held in financial institutions that have credit ratings that range from A to AA as per S&P rating and BAA as per Moody rating.

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash balances and access to equity funding.

The Group's exposure to the risk of changes in market interest rates relate primarily to cash assets and floating interest rates. The Group is not materially exposed to changes in market interest rates.

The Directors monitor the cash-burn rate of the Group on an on-going basis against budget and the maturity profiles of financial assets and liabilities to manage its liquidity risk.

The financial liabilities that the Group had at reporting date were loans payable, employee benefits and trade payables incurred in the normal course of the business. Trade payables were non-interest bearing and were due within the normal 30-60 days terms of creditor payments.

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**Note 2: Financial risk management (Continued)**

**(c) Liquidity risk (Continued)**

The following table sets out the carrying amount of the financial instruments by maturity:

**Year ended 31 December 2016**

	<b>&lt;1 year</b>	<b>1 – 5 Years</b>	<b>Over 5 Years</b>	<b>Total contractual cash flows</b>
	\$	\$	\$	\$
Financial Liabilities:				
Trade and other payables	1,043,081	–	–	1,043,081
Employee benefits payable	65,597	–	–	65,597
Bank loan	400,204	–	–	400,204
Loan payables <sup>1</sup>	1,372,677	–	–	1,372,677
	<u><b>2,881,559</b></u>	<u><b>–</b></u>	<u><b>–</b></u>	<u><b>2,881,559</b></u>

**Period ended 31 December 2015**

	<b>&lt;1 year</b>	<b>1 – 5 Years</b>	<b>Over 5 Years</b>	<b>Total contractual cash flows</b>
	\$	\$	\$	\$
Financial Liabilities:				
Trade and other payables	271,891	–	–	271,891
Employee benefits payables	74,881	–	–	74,881
Loan payables <sup>1</sup>	5,453,111	–	–	5,453,111
	<u><b>5,799,883</b></u>	<u><b>–</b></u>	<u><b>–</b></u>	<u><b>5,799,883</b></u>

<sup>1</sup> The carrying value of the loans payable in relation to the investment property is equated to the fair value due to the short term nature of the loans.

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**Note 3: Investments**

The consolidated financial statements include the financial statements of CAQ Holdings Limited:

Name	Country of Incorporation	% Equity Interest	
		31/12/2016	31/12/2015
CAQ Diamond Network Limited	BVI	100%	100%
CAQ Diamond Network (HK) Limited	Hong Kong	100%	100%
CAQ Finance Limited	BVI	100%	100%
CAQ Finance (HK) Limited	Hong Kong	100%	100%
Rayport Limited	BVI	100%	100%
Peace Base Holdings Limited	Hong Kong	100%	100%
Actual Winner Limited	Hong Kong	100%	100%
Express Linker Limited	Hong Kong	100%	100%
Haikou Peace Base Industry Development Co. Ltd.	China	100%	100%

CAQ Holdings Limited is the ultimate Australian parent entity and ultimate parent of the Group.

**Note 4: Investment Properties**

	Year 2016 \$	Period 2015 (restated) \$
Balance as at 1 January	44,898,570	31,147,070
Construction costs incurred during the period	11,148,552	14,783,928
Foreign exchange adjustment	(2,417,291)	(1,032,428)
<b>Closing balance as at 31 December</b>	<b><u>53,629,831</u></b>	<b><u>44,898,570</u></b>

The investment property represents the Company's 100% interest in the Haikou Project. As per the Company's accounting policy, RMB89,916 (equivalent to approximately \$17,992) of borrowing costs have been capitalised during the year ended 31 December 2016. Refer to note 1(x) for the change in accounting policy of the investment property.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 5: Property, Plant and Equipment**

**For the year ended 31 December 2016**

	<b>Motor vehicles</b>	<b>Equipments</b>	<b>Furniture fixtures</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Cost</b>				
At the beginning of year (As at 1 January 2016)	376,525	293,175	–	669,700
Additions	–	201,421	139,989	341,410
Exchange differences	(19,623)	(17,349)	(1,438)	(38,410)
	<u>356,902</u>	<u>477,247</u>	<u>138,551</u>	<u>972,700</u>
<b>Accumulated Depreciation</b>				
At the beginning of year (As at 1 January 2016)	(57,758)	(25,406)	–	(83,164)
Charge for the year	(87,411)	(131,892)	(15,554)	(234,857)
Exchange differences	3,908	2,679	160	6,747
At the end of year (As at 31 December 2016)	<u>(141,261)</u>	<u>(154,619)</u>	<u>(15,394)</u>	<u>(311,274)</u>
<b>Net book value</b>				
Net book value at 31 December 2016	<u><u>215,641</u></u>	<u><u>322,628</u></u>	<u><u>123,157</u></u>	<u><u>661,426</u></u>

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**Note 5: Property, Plant and Equipment (Continued)**

**For the period ended 31 December 2015**

	<b>Motor vehicles</b>	<b>Equipments</b>	<b>Furniture fixtures</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Cost</b>				
At the beginning of period (As at 1 July 2015)	112,636	40,597	–	153,233
Additions	275,865	262,924	–	538,789
Exchange differences	(11,976)	(10,346)	–	(22,322)
	<u>376,525</u>	<u>293,175</u>	<u>–</u>	<u>669,700</u>
<b>Accumulated Depreciation</b>				
At the beginning of period (As at 1 July 2015)	(29,578)	(13,513)	–	(43,091)
Charge for the period	(29,751)	(12,572)	–	(42,323)
Exchange differences	1,571	679	–	2,250
	<u>(57,758)</u>	<u>(25,406)</u>	<u>–</u>	<u>(83,164)</u>
<b>Net book value</b>				
Net book value at 31 December 2015	<u><u>318,767</u></u>	<u><u>267,769</u></u>	<u><u>–</u></u>	<u><u>586,536</u></u>

**Note 6: Inventory**

	<b>Consolidated 31 December 2016</b>	<b>Consolidated 31 December 2015</b>
	\$	\$
<b>CURRENT</b>		
At cost:		
– finished goods	<u>1,255,247</u>	<u>293,451</u>
	<u><u>1,255,247</u></u>	<u><u>293,451</u></u>

Inventory recognised as expense during the year ended 31 December 2016 and included in cost of sales amounted to \$307,775 (2015: \$20,772).

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**Note 7: Income Tax**

The prima facie income tax expense on the pre-tax accounting loss reconciles to the income tax benefit in the financial statements as follows:

	<b>Consolidated 31 December 2016 \$</b>	<b>Consolidated 31 December 2015 \$</b>
Loss from continuing operations before Income Tax	(2,704,539)	(1,323,450)
	<u>(2,704,539)</u>	<u>(1,323,450)</u>
Income tax benefit at 30%	(811,362)	(397,035)
<b>Permanent Differences:</b>		
Non-deductible expenses – Other	3,967	2,393
Tax effect of lower overseas tax rate	104,213	48,753
	<u>(703,182)</u>	<u>(345,889)</u>
Movements in unrecognised temporary differences		
Tax effect of current period tax losses for which no deferred tax asset has been recognised	182,116	102,124
Tax effect of foreign losses for which no deferred tax asset has been recognised	521,066	243,765
	<u>—</u>	<u>—</u>
Income tax benefit/(expense)	<u>—</u>	<u>—</u>
Unrecognised temporary differences:		
	<b>Consolidated 31 December 2016 \$</b>	<b>Consolidated 31 December 2015 \$</b>
		(restated)
<b>Deferred Tax Assets</b>		
<i>On income tax account</i>		
Carry forward tax losses	552,096	182,631
Foreign losses	873,538	352,472
Other	—	9,000
	<u>—</u>	<u>9,000</u>
Net deferred tax assets not recognised	<u><b>1,425,634</b></u>	<u>544,103</u>

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**Note 7: Income Tax (Continued)**

The taxation benefits of tax losses and timing not brought to account will only be obtained if:

- (a) assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised;
- (b) conditions for deductibility imposed by the law are complied with; and
- (c) no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

	<b>Consolidated 31 December 2016 \$</b>	<b>Consolidated 31 December 2015 \$ (restated)</b>
<b>Deferred Tax Liabilities</b>		
Net deferred tax liabilities	-	-

**Note 8: Revenue and Expenses**

	<b>Consolidated 31 December 2016 \$</b>	<b>Consolidated 31 December 2015 \$</b>
(a) Revenue from continuing operations		
– Sale of diamonds and goods	380,482	29,750
– Interest received	28,877	12,841
– Government grant	244,030	39,074
	244,030	39,074
Total revenue	<b>653,389</b>	<b>81,665</b>
(b) Expenses		
Cost of Sales	(307,775)	(20,772)
Finance costs		
Interest paid – Other	(11,668)	(2,117)
Total Finance Costs	<b>(11,668)</b>	<b>(2,117)</b>

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**Note 9: Current assets – Cash and cash equivalents**

**(a) Reconciliation of Cash**

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position, as follows:

	<b>Consolidated 31 December 2016</b>	<b>Consolidated 31 December 2015</b>
	\$	\$
<b>Current Assets</b>		
Cash at bank and in hand	1,497,816	18,347,477
	<u>1,497,816</u>	<u>18,347,477</u>
Net Cash	<u><b>1,497,816</b></u>	<u><b>18,347,477</b></u>

**(b) Interest Rate Risk Exposure**

The Group's exposure to interest rate risk is discussed in note 2.

**Note 10: Current assets: Trade and other receivables**

	<b>Consolidated 31 December 2016</b>	<b>Consolidated 31 December 2015</b>
	\$	\$
<b>Current</b>		
Construction deposit	–	580,536
Loan receivable <sup>1</sup>	–	1,266,624
Other receivables	1,008,395	567,952
	<u>1,008,395</u>	<u>2,415,112</u>

<sup>1</sup> In December 2015, Haikou Peace Base Industry Development Co. Ltd (“HPB”) entered into a loan agreement to advance \$1,266,624 to a subsidiary of the Haikou Project’s main builder. Pursuant to the loan agreement, interest is charged at a rate of 1.5% per month from the repayment date; being 16 March 2016.

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**Note 10: Current assets: Trade and other receivables (Continued)**

**(a) Fair value and credit risk**

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The following table details the Group's expected maturity for its non-derivative financial assets. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period. Trade receivables are generally due for settlement within periods ranging from 30 days to 60 day.

	Effective interest rate %	Less than 1 year \$	1-5 years \$	5+ years \$
<b>Financial Assets</b>				
<b>At 31 December 2016</b>				
Non-interest bearing	–	1,008,395	–	–
Variable interest rate instruments	–	–	–	–
		<b>1,008,395</b>	–	–
<b>At 31 December 2015</b>				
Non-interest bearing	–	2,415,112	–	–
Variable interest rate instruments	–	–	–	–
		2,415,112	–	–

**Note 11: Current liabilities – Trade and other payables**

	Consolidated 31 December 2016 \$	Consolidated 31 December 2015 \$
Trade and other payables	1,108,678	346,772
	<b>1,108,678</b>	<b>346,772</b>

(i) Trade payables are non-interest bearing and are normally settled on 30-60 day terms. Their carrying value approximates their fair value.

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**Note 12: Borrowings**

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>31 December</b>	<b>31 December</b>
	<b>2016</b>	<b>2015</b>
	\$	\$
Borrowings – Hainan Baina Investment Limited <sup>1</sup>	1,372,677	119,587
Borrowings – Beijing Yun Zhong Investment Consulting Co Ltd <sup>2</sup>	–	5,333,524
Borrowings – China Citic Bank <sup>3</sup>	400,204	–
	<b>1,772,881</b>	<b>5,453,111</b>
<b>Total Borrowings</b>	<b>1,772,881</b>	<b>5,453,111</b>

<sup>1</sup> In November 2014, January 2015 and May 2015, Haikou Peace Base Industry Development Co Ltd (“HPB”) entered into loan agreements with Hainan Baina Investment Limited and was advanced \$4,263,966. Pursuant to the loan agreements, interest is charged at a rate of 6% per annum. As at 31 December 2015, the loans had incurred interest of \$221,162 and additional loan amount of \$93,983 for expenses paid on behalf of HPB. The loan provided funds used for the construction of the Haikou Project. As at 31 December 2015, \$4,459,524 had been repaid to Hainan Baina Investment Limited.

In June 2016 and December 2016, HPB entered into loan agreements with Hainan Baina Investment Limited and was advanced \$1,314,164. Pursuant to the loan agreement, interest is charged at a rate of 6% per annum. During the year ended 31 December 2016, the additional loan amount of \$40,015 was for expenses paid on behalf of HPB. The loan provided funds used for the general working capital for HPB. As at 31 December 2016, \$101,089 has been repaid to Hainan Baina Investment Limited.

<sup>2</sup> In January 2015, HPB entered into a loan agreement with Beijing Yun Zhong Investment Consulting Co Ltd and was advanced \$5,066,498. Pursuant to the loan agreement, interest is charged at a rate of between 4.35% to 6% per annum. As at 31 December 2015, the loan had incurred interest of \$267,026. The loan provided funds used for the construction of the Haikou Project. On 1 February 2016, the loan had been fully repaid to Beijing Yun Zhong Investment Consulting Co Ltd.

<sup>3</sup> During the year, HPB had been granted a banking facility of RMB15,000,000 by China Citic Bank. The facility is secured by the title of the Haikou project as at 31 December 2016, HPB had drawn down RMB2,000,000 (equivalent to approximately \$400,204). The bank loan interest rate is approximately 5.655% per annum. Repayment of the bank loan of RMB2,000,000 plus interest is due by the end of March 2017.

**Note 13: Contributed equity**

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>31 December</b>	<b>31 December</b>
	<b>2016</b>	<b>2015</b>
	\$	\$
	62,102,608	62,102,608
<b>Total contributed equity</b>	<b>62,102,608</b>	<b>62,102,608</b>

\* Fully paid ordinary shares carry one vote per share and carry the right to dividends.

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**Note 13: Contributed equity (Continued)**

(b) Movements in ordinary share capital

	<i>No.</i>	<i>\$</i>
Balance as at 1 July 2014	374,115,356	2,855,431
Capital consolidation <sup>1</sup>	(187,057,626)	–
Issue of shares under Vendor Offer <sup>2</sup>	207,500,000	11,732,875
Issue of shares under Facilitation Offer <sup>3</sup>	10,375,000	586,644
Issue of shares under Public Offer <sup>4</sup>	250,000,000	50,000,000
Costs of issue	–	(3,072,342)
	<u>654,932,730</u>	<u>62,102,608</u>
<b>Closing balance as at 30 June 2015</b>		
Balance as at 1 July 2015	<u>654,932,730</u>	<u>62,102,608</u>
No movement	–	–
<b>Closing balance as at 31 December 2015</b>	<u>654,932,730</u>	<u>62,102,608</u>
Balance as at 1 January 2016	<u>654,932,730</u>	<u>62,102,608</u>
No movement	–	–
<b>Closing balance as at 31 December 2016</b>	<u>654,932,730</u>	<u>62,102,608</u>

<sup>1</sup> On 24 December 2014, the Company's securities were consolidated on a 1:2 basis.

<sup>2</sup> On 17 April 2014, pursuant to the resolution approved at the shareholders meeting on 10 December 2014, the Company issued 207,500,000 shares to the Vendors of the acquisition. Following a valuation performed on the acquisition, the value of the consideration is deemed to be \$11,732,875 (refer to note 1).

<sup>3</sup> On 17 April 2014, pursuant to the resolution approved at the shareholders meeting on 10 December 2014, the Company issued 10,375,000 shares to the Facilitators of the acquisition. The value of the services is deemed to be 5% of the asset value.

<sup>4</sup> On 7 May 2015, pursuant to the resolution approved at the shareholders meeting on 10 December 2014, the Company issued 250,000,000 shares at \$0.20 per share.

(c) Share Options

There are no unissued ordinary shares of CAQ Holdings Limited under option as at 31 December 2016.

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**Note 14: Reserves**

This is a foreign exchange translation reserve as the Company's subsidiaries trade in a functional currency of Chinese Renminbi and Hong Kong dollars.

	<b>Consolidated 31 December 2016</b>	<b>Consolidated 31 December 2015</b>
	\$	\$
Balance as at 1 January 2016	3,184,249	2,127,263
Movement in foreign currency translation reserve	<u>(2,816,083)</u>	<u>1,056,986</u>
<b>Closing balance as at 31 December 2016</b>	<b><u>368,166</u></b>	<b><u>3,184,249</u></b>

**Note 15: Related parties**

**(a) Compensation of Key Management Personnel**

	<b>31 December 2016</b>	<b>31 December 2015</b>
	\$	\$
Short-term employee benefits	<u>482,020</u>	<u>259,926</u>
	<b><u>482,020</u></b>	<b><u>259,926</u></b>

**(b) Other transactions with Key Management Personnel**

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Group in the reporting year. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

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**Note 15: Related parties (Continued)**

**(b) Other transactions with Key Management Personnel (Continued)**

*CAQ Holdings Limited (Continued)*

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

*CAQ Holdings Limited*

Legal Fees:

During the year, Price Sierakowski Pty Ltd ("Price Sierakowski") provided the Company with legal services. Mr Price is a Director and Shareholder of Price Sierakowski. These services provided were based upon normal commercial terms and conditions no more favourable than those available to other parties. As at 31 December 2016 \$5,278 (incl GST) was paid to Price Sierakowski (31 December 2015: \$5,541 (incl GST)). As at 31 December 2016 \$nil (incl GST) was payable to Price Sierakowski (31 December 2015: \$3,439).

Rental Fees:

During the year, Trident Capital Pty Ltd ("Trident Capital") provided the Company with office rental services. These services provided were based upon normal commercial terms and conditions no more favourable than those available to other parties Mr Price is a Director and Shareholder of Trident Capital. As at 31 December 2016 \$26,400 (incl GST) was paid to Trident Capital (31 December 2015: \$13,200 (incl GST)). As at 31 December 2016 \$nil was payable to Trident Capital (31 December 2015: \$nil).

Accounting Fees:

During the year, Trident Management Services Pty Ltd ("Trident Management Services") provided the Company with accounting services. Mr. Ong is a Director and Shareholder of Trident Management Services. These services provided were based upon normal commercial terms and conditions no more favourable than those available to other parties. As at 31 December 2016 \$18,968 (incl GST) was paid to Trident Management Services (31 December 2015: \$20,094 (incl GST)). As at 31 December 2016 \$844 was payable to Trident Management Services (31 December 2015: \$nil (excl GST)).

Company Secretarial Fees:

During the year, Trident Management Services provided the Company with company secretarial services. These services provided were based upon normal commercial terms and conditions no more favourable than those available to other parties. As at 31 December 2016 \$52,800 (incl GST) was paid to Trident Management Services (31 December 2015: \$26,400 (incl GST)). As at 31 December 2016 \$4,400 was payable to Trident Management Services (31 December 2015: \$nil (excl GST)).

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**Note 16: Remuneration of auditors**

During the period the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms.

	<b>31 December 2016</b>	<b>31 December 2015</b>
	\$	\$
<b>BDO Audit (WA)</b>		
<b>1. Audit and other assurance services</b>		
– auditing and reviewing the financial statements	60,350	30,000
<b>2. Other services</b>		
– other <sup>1</sup>	4,740	–
<b>BDO China Shu Lun Pan LLP</b>		
<b>1. Audit and other assurance services</b>		
– auditing and reviewing the financial statements	9,098	17,535
Total remuneration for audit and other assurance services	74,188	47,535

<sup>1</sup> fees and disbursements are in relation to a site visit to China.

**Note 17: Contingencies**

***Contingent liabilities***

The directors of the Group are not aware of any contingent liabilities which require disclosure in the financial statements for the year ended 31 December 2016.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 18: Commitments**

*Operating lease commitments*

	<b>31 December 2016</b>	<b>31 December 2015</b>
	\$	\$
Not later than 1 year	18,000	18,000
	<b>18,000</b>	<b>18,000</b>

**Note 19: Events occurring after the reporting date**

Except for the events noted in the Directors' Report, no material financial events have occurred subsequent to the reporting date.

**Note 20: Reconciliation of loss after income tax to net cash flow from operating activities**

	<b>31 December 2016</b>	<b>31 December 2015</b>
	\$	\$
Operating (loss) after income tax	(2,704,539)	(1,323,450)
Foreign currency (loss)/gain	24,987	(251,269)
Depreciation	234,857	58,921
Other		
(Increase)/decrease in assets		
– Inventory	(961,796)	(293,451)
– Prepayments	294,262	(2,732)
– Trade and other receivables	(30,116)	(172,664)
Increase/(decrease) in liabilities		
– VAT Tax	(116,578)	(314,249)
– Current trade creditors and payables	819,280	200,940
Net cash used in operating activities	<b>(2,439,643)</b>	<b>(2,097,944)</b>

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**Note 21: Profit/(loss) per share**

Basic earnings/(loss) per share amounts are calculated by dividing net earnings/(loss) for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic loss per share computations:

	<b>Consolidated 31 December 2016</b>	<b>Consolidated 31 December 2015</b>
	\$	\$ (restated)
(Loss) attributable to ordinary equity holders	(2,704,539)	(1,323,450)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used as the denominator in calculating basic earnings/(loss) per share	654,932,730	654,932,730
	<b>Cents/share</b>	<b>Cents/share</b>
Basic and diluted (loss) per share	(0.41)	(0.20)

\* *The prior year calculation for Basic and diluted earnings/(loss) per share has been recalculated to reflect the impact of the share consolidation in the current period.*

**Note 22: Dividends**

No dividends have been declared or paid during the year.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 23: Parent entity information**

The following detailed information is related to the parent entity, CAQ Holdings Limited, as at 31 December 2016 and 31 December 2015.

	<b>31 December 2016</b>	<b>31 December 2015</b>
	\$	\$
Current assets	46,293,487	46,952,472
Non-current assets	<u>9,128,479</u>	<u>12,319,521</u>
<b>Total assets</b>	<b><u>55,421,966</u></b>	<b><u>59,271,993</u></b>
Current liabilities	23,320	62,029
Non-current liabilities	<u>—</u>	<u>—</u>
<b>Total liabilities</b>	<b><u>23,320</u></b>	<b><u>62,029</u></b>
Contributed equity	62,102,607	62,102,607
Accumulated losses	(6,841,511)	(3,030,193)
Reserves	<u>137,550</u>	<u>137,550</u>
<b>Total equity</b>	<b><u>55,398,646</u></b>	<b><u>59,209,964</u></b>
Loss for the year	(3,811,318)	(348,390)
Other comprehensive income for the year	<u>—</u>	<u>—</u>
<b>Total comprehensive loss for the year</b>	<b><u>(3,811,318)</u></b>	<b><u>(348,390)</u></b>

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**SHAREHOLDER INFORMATION**

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

**Shareholdings as at 24 March 2017**

***Substantial shareholders***

Name	Number of ordinary shares held	Percentage of capital held
CITICORP NOMINEES PTY LIMITED	132,670,136	20.26%
PERSHING AUSTRALIA NOMINEES PTY LTD <PHILLIP SECURITIES (HK) A/C>	126,570,685	19.33%
BEIJING PROPERTIES (HOLDINGS) LIMITED	108,628,000	16.59%
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	55,877,857	8.53%
LI HUI YUN	50,000,000	7.63%
MASS TALENT FINANCIAL LTD	36,000,000	5.50%
<b>TOTAL</b>	<b>509,746,678</b>	<b>77,82%</b>

Distribution of security holders Category	Number of Holders
1 – 1,000	350
1,001 – 5,000	219
5,001 – 10,000	122
10,001 – 100,000	101
100,001 and over	70
	<b>862</b>

***Unmarketable parcels***

The number of shareholders holding less than a marketable parcel is 512.

There is only one class of share and all ordinary shareholders have equal voting rights.

***On-market buyback***

There is no current on-market buy-back.

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**SHAREHOLDER INFORMATION**

*Twenty largest shareholders – Ordinary Shares*

<b>Name</b>	<b>Number of ordinary shares held</b>	<b>Percentage of capital held</b>
CITICORP NOMINEES PTY LIMITED	132,670,136	20.26
PERSHING AUSTRALIA NOMINEES PTY LTD <PHILLIP SECURITIES (HK) A/C>	126,570,685	19.33
BEIJING PROPERTIES (HOLDINGS) LIMITED	108,628,000	16.59
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	55,877,857	8.53
LI HUI YUN	50,000,000	7.63
MASS TALENT FINANCIAL LTD	36,000,000	5.5
ELITE MEDAL LIMITED	25,000,000	3.82
J P MORGAN NOMINEES AUSTRALIA LIMITED	19,176,491	2.93
HOLLYVIEW INTERNATIONAL LTD	12,102,000	1.85
MR KWAN CHAN	10,000,000	1.53
MR HUAN WEI XIAO	8,303,299	1.27
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,093,648	0.93
RZ CAPITAL PTE LTD	5,000,000	0.76
MR FEI CHAN	5,000,000	0.76
KEONG MING TEE	3,825,280	0.58
WAH LIH JIUN	3,725,000	0.57
TRIDENT CAPITAL PTY LTD	3,586,666	0.55
MR DASHUN TANG	2,500,000	0.38
MR SHIWU HE	2,500,000	0.38
PRECISE NETWORK LIMITED	2,075,000	0.32
<b>TOTAL</b>	<b><u>618,634,062</u></b>	<b><u>94.47</u></b>

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**ABN 86 091 687 740**

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The Board is responsible for establishing the Company's corporate governance framework, the key features of which are set below. In establishing its corporate governance framework, the Board has referred to the 3rd edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

In accordance with ASX Listing Rule 1.1 Condition 13, the corporate governance statement set out discloses the extent to which the Company intends to follow the recommendations as at the date of reinstatement of the Company's securities to quotation on ASX. The Company will follow each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices will follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices will not follow a recommendation, the Board has explained its reasons for not following the recommendation and disclosed what, if any, alternative practices the Company will adopt instead of those in the recommendation.

The following governance-related documents can be found on the Company's website at [www.cellaquaculture.com.au](http://www.cellaquaculture.com.au), under the section marked "Corporate Governance":

- (a) Board Charter;
- (b) Board Performance Evaluation Policy;
- (c) Code of Conduct;
- (d) Audit Committee Charter;
- (e) Remuneration and Nomination Committee Charter;
- (f) Security Trading Policy;
- (g) Continuous Disclosure Policy;
- (h) Shareholder Communication and Investor Relations Policy;
- (i) Risk Committee Charter;
- (j) Risk Management Policy; and
- (k) Diversity Policy.

**Principle 1: Lay solid foundations for management and oversight**

***Recommendation 1.1***

The Company has established the respective roles and responsibilities of its Board and management, and those matters expressly reserved to the Board and those delegated to management, and have documented this in its Board Charter.

The responsibilities of the Board include but are not limited to:

- (a) setting and reviewing strategic direction and planning;
- (b) reviewing financial and operational performance;
- (c) identifying principal risks and reviewing risk management strategies; and
- (d) considering and reviewing significant capital investments and material transactions.

In exercising its responsibilities, the Board recognises that there are many stakeholders in the operations of the Company, including employees, shareholders, co-ventures, the government and the community.

The Board has delegated responsibility for the business operations of the Company to the Chief Executive Officer and the management team. The management team, led by the Chief Executive Officer is accountable to the Board.

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***Recommendation 1.2***

The Company undertakes appropriate checks before appointing a person, or putting forward to shareholders a candidate for election as a director and provides shareholders with all material information in its possession relevant to a decision on whether or not to elect a director. The checks which are undertaken, and the information provided to shareholders, are set out in the Company's Remuneration and Nomination Committee Charter.

***Recommendation 1.3***

The Company has a written agreement with all the Directors.

The material terms of any employment, service or consultancy agreement the Company, or any of its child entities, has entered into with its Chief Executive Officer, any of its directors, and any other person or entity who is a related party of the Chief Executive Officer or any of its directors will be disclosed in accordance with ASX Listing Rule 3.16.4 (taking into consideration the exclusions from disclosure outlined in that rule).

***Recommendation 1.4***

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board. The Company Secretary is responsible for the application of best practice in corporate governance and also supports the effectiveness of the Board by:

- (a) ensuring a good flow of information between the Board, its committees, and Directors;
- (b) monitoring policies and procedures of the Board;
- (c) advising the Board through the Chairman of corporate governance policies; and
- (d) conducting and reporting matters of the Board, including the despatch of Board agendas, briefing papers and minutes.

***Recommendation 1.5***

The Company has a Diversity Policy, the purpose of which is:

- (a) to outline the Company's commitment to creating a corporate culture that embraces diversity and, in particular, focuses on the composition of its Board and senior management; and
- (b) to provide a process for the Board to determine measurable objectives and procedures which the Company will implement and report against to achieve its diversity goals.

The Board intends to set measurable objectives for achieving diversity, specifically including gender diversity, which will be disclosed in the Company's corporate governance statement for the financial year ended 31 December 2016, and will review the effectiveness and relevance of these measurable objectives on an annual basis.

***Recommendation 1.6***

The Board will be responsible for evaluating the performance of the Company's senior executives in accordance with the process disclosed in the Company's Process for Performance Evaluations, which is currently being developed by the Board.

The Chair will be responsible for evaluating the performance of the Company's executive directors in accordance with the process disclosed in the Company's Process for Performance Evaluations, which is currently being developed by the Board. A general performance evaluation was undertaken in the reporting period.

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***Recommendation 1.7***

The Chair will be responsible for evaluating the performance of the Board, Board committees and individual directors in accordance with the process disclosed in the Company's Board performance evaluation policy.

This policy is to ensure:

- (a) individual Directors and the Board as a whole work efficiently and effectively in achieving their functions;
- (b) the executive Directors and key executives execute the Company's strategy through the efficient and effective implementation of the business objectives; and
- (c) committees to which the Board has delegated responsibilities are performing efficiently and effectively in accordance with the duties and responsibilities set out in the board charter.

This policy will be reviewed annually.

The Company will report on whether an evaluation of the Board, its committees and individual directors has taken place in the relevant reporting period, and whether the process was in accordance with the process disclosed, in each of its corporate governance statements. An assessment was performed at the end of the financial year.

**Principle 2: Structure the board to add value**

***Recommendation 2.1***

The Company has a separate Nomination Committee comprising of Richard Soo, Qian Xu and Ching Chung. Mr Ching Chung is an executive director. However, due to his experience, it was considered appropriate for Mr Ching Chung to be on the committee. There were informal discussions held in relation to nomination matters during the year.

The duties of the nomination committee are set out in the Company's Nomination Committee Charter which is available on the Company's website.

The Board has adopted a Nomination Committee Charter which describes the role, composition, functions and responsibilities of a Nomination Committee and is disclosed on the Company's website.

***Recommendation 2.2***

The mix of skills and diversity which the Board is looking to achieve in its composition is:

- (a) a broad range of business experience; and
- (b) technical expertise and skills required to discharge duties.

An evaluation was performed at the end of the financial year.

***Recommendation 2.3***

The Board considers the independence of directors having regard to the relationships listed in Box 2.3 of the Principles and Recommendations.

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**Principle 2: Structure the board to add value (Continued)**

Currently the Board is structured as follows:

- (a) Paul Price (Non-Executive Director and Chairman);
- (b) KC Dennis Ong (Non-Executive Director);
- (c) Soo Tuck Yoon (Non-Executive Director);
- (d) Michael Siu (Non-Executive Director);
- (e) Qian Xu (Non-Executive Director); and
- (f) Ching Chung (Executive Director and Deputy Chairman).

Paul Price is a director and shareholder of Trident Capital Pty Ltd, which is a shareholder of the Company and a provider of material professional services, and accordingly, is not considered independent.

KC Ong is a director of Trident Management Services Pty Ltd, which is a provider of material professional services, and accordingly, is not considered independent.

Michael Siu and Qian Xu are directors and shareholders of Beijing Properties (Holdings) Limited, which is a substantial shareholder of the Company, and accordingly, is not considered independent.

Ching Chung is an executive director, and accordingly, is not considered independent.

***Recommendation 2.4***

Currently, the Board considers that membership weighted towards technical expertise is appropriate at this stage of the Company's operations. A majority of the Board is not independent.

***Recommendation 2.5***

As noted above, Paul Price is not an independent Chairman. However, Paul Price is considered to be the most appropriate person to Chair the Board because of his public company experience.

***Recommendation 2.6***

It is a policy of the Company, that new Directors undergo an induction process in which they are given a full briefing on the Company. Where possible this includes meetings with key executives, tours of the premises, an induction package and presentations.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

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**Principle 3: Act ethically and responsibly**

***Recommendation 3.1***

The Company is committed to promoting good corporate conduct grounded by strong ethics and responsibility. The Company has established a Code of Conduct (**Code**), which addresses matters relevant to the Company's legal and ethical obligations to its stakeholders. It may be amended from time to time by the Board, and is disclosed on the Company's website.

The Code applies to all Directors, employees, contractors and officers of the Company.

The Code will be formally reviewed by the Board each year.

**Principle 4: Safeguard integrity in corporate reporting**

***Recommendation 4.1***

The Company has a separate Audit Committee comprising of Paul Price, KC Ong and Michael Siu.

The Audit Committee is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Audit Committee may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Audit Committee.

The Board has adopted an Audit Committee Charter which describes the role, composition, functions and responsibilities of the Audit Committee and is disclosed on the Company's website.

***Recommendation 4.2***

Before the Board approves the Company financial statements for each financial period it will receive from the Chief Executive Officer and the Chief Financial Officer or equivalent a declaration that, in their opinion, the financial records of the Company for the relevant financial period have been properly maintained and that the financial statements for the relevant financial period comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and the consolidated entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

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**CORPORATE GOVERNANCE STATEMENT**

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**Principle 4: Safeguard integrity in corporate reporting (Continued)**

***Recommendation 4.3***

Under section 250RA of the Corporations Act, the Company's auditor is required to attend the Company's annual general meeting at which the audit report is considered, and if he cannot, he is to arrange to be represented by a person who is a suitably qualified member of the audit team that conducted the audit and is in a position to answer questions about the audit. Each year, the Company will write to the Company's auditor to inform them of the date of the Company's annual general meeting. In accordance with section 250S of the Corporations Act, at the Company's annual general meeting where the Company's auditor or their representative is at the meeting, the Chair will allow a reasonable opportunity for the members as a whole at the meeting to ask the auditor (or its representative) questions relevant to the conduct of the audit; the preparation and content of the auditor's report; the accounting policies adopted by the Company in relation to the preparation of the financial statements; and the independence of the auditor in relation to the conduct of the audit. The Chair will also allow a reasonable opportunity for the auditor (or their representative) to answer written questions submitted to the auditor under section 250PA of the Corporations Act.

**Principle 5: Make timely and balanced disclosure**

***Recommendation 5.1***

The Company is committed to:

- (a) ensuring that shareholders and the market are provided with full and timely information about its activities;
- (b) complying with the continuous disclosure obligations contained in the Listing Rules and the applicable sections of the Corporations Act; and
- (c) providing equal opportunity for all stakeholders to receive externally available information issued by the Company in a timely manner.

The Company has adopted a Disclosure Policy, which is disclosed on the Company's website. The Disclosure Policy sets out policies and procedures for the Company's compliance with its continuous disclosure obligations under the ASX Listing Rules, and addresses financial markets communication, media contact and continuous disclosure issues. It forms part of the Company's corporate policies and procedures and is available to all staff.

The Company Secretary manages the policy. The policy will develop over time as best practice and regulations change and the Company Secretary will be responsible for communicating any amendments. This policy will be reviewed by the Board annually.

**Principle 6: Respect the rights of security holders**

***Recommendation 6.1***

The Company provides information about itself and its governance to investors via its website at [www.cellaquaculture.com.au](http://www.cellaquaculture.com.au).

The Company is committed to maintaining a Company website with general information about the Company and its operations and information specifically targeted at keeping the Company's shareholders informed about the Company. In particular, where appropriate, after confirmation of receipt by ASX, the following will be posted to the Company website:

- (a) relevant announcements made to the market via ASX;
- (b) media releases;
- (c) investment updates;
- (d) Company presentations and media briefings;
- (e) copies of press releases and announcements for the preceding three years; and
- (f) copies of annual and half yearly reports including financial statements for the preceding three years.

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**Principle 6: Respect the rights of security holders (Continued)**

***Recommendation 6.2***

The Company has a Shareholder Communication and Investor Relations Policy which aims to ensure that Shareholders are informed of all major developments of the Company. The policy is disclosed on the Company's website.

Information is communicated to Shareholders via:

- (a) reports to Shareholders;
- (b) ASX announcements;
- (c) annual general meetings; and
- (d) the Company website.

This Shareholder Communication and Investor Relations policy will be formally reviewed by the Board each year. While the Company aims to provide sufficient information to Shareholders about the Company and its activities, it understands that Shareholders may have specific questions and require additional information. To ensure that Shareholders can obtain all relevant information to assist them in exercising their rights as Shareholders, the Company has made available a telephone number and relevant contact details (via the website) for Shareholders to make their enquiries.

***Recommendation 6.3***

The Board encourages full participation of Shareholders at meetings to ensure a high level of accountability and identification with the Company's strategies and goals. The Company will use general meetings as a tool to effectively communicate with shareholders and allow shareholders a reasonable opportunity to ask questions of the Board and to otherwise participate in the meeting. The external auditor of the Company is invited attend each Annual General Meeting of the Company and be available to answer shareholder questions about the conduct of the audit and the preparation of the auditor's report.

***Recommendation 6.4***

Shareholders are given the option to receive communications from, and send communication to, the Company and its share registry electronically. To ensure that shareholders can obtain all relevant information to assist them in exercising their rights as shareholders, the Company has made available a telephone number and relevant contact details (via the website) for shareholders to make their enquiries.

**Principle 7: Recognise and manage risk**

***Recommendation 7.1***

The Company does not have a separate Risk Committee. The Audit Committee is responsible for the oversight of the Company's risk management and control framework.

When the Board meets as a risk committee is carries out those functions which are delegated to it in the Company's Risk Committee Charter. Items that are usually required to be discussed by a Risk Committee are marked as separate agenda items at Board meetings when required.

The Board has adopted a Risk Committee Charter which describes the role, composition, functions and responsibilities of the Risk Committee and is disclosed on the Company's website.

The Board has adopted a Risk Management Policy, which is disclosed on the Company's website. Under the policy, responsibility and control of risk management is delegated to the appropriate level of management within the Company with the Chief Executive Officer having ultimate responsibility to the Board for the risk management and control framework.

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**Principle 7: Recognise and manage risk (Continued)**

The risk management system covers:

- (a) operational risk;
- (b) financial reporting;
- (c) compliance/regulations; and
- (d) system/IT process risk.

A risk management model is also being developed and will provide a framework for systematically understanding and identifying the types of business risks threatening the Company as a whole, or specific business activities within the Company.

***Recommendation 7.2***

The Board will review the Company's risk management framework annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the Company faces and to ensure that the Company is operating within the risk appetite set by the Board.

Arrangements put in place by the Board to monitor risk management include, but are not limited to:

- (a) monthly reporting to the Board in respect of operations and the financial position of the Company; and
- (b) quarterly rolling forecasts prepared;

***Recommendation 7.3***

The Company does not have an internal audit function. To evaluate and continually improve the effectiveness of the Company's risk management and internal control processes, the Board relies on ongoing reporting and discussion of the management of material business risks as outlined in the Company's Risk Management Policy.

***Recommendation 7.4***

Given the speculative nature of the Company's business, it will be subject to general risks and certain specific risks. The Company will identify those economic, environmental and/or social sustainability risks to which it has a material exposure, and disclose how it intends to manage those risks in each of its corporate governance statements.

**Principle 8: Remunerate fairly and responsibly**

***Recommendation 8.1***

The Company has a Remuneration Committee comprising of Richard Soo, Qian Xu and Ching Chung. Due to the short period from the formation of the committee on 29 April 2015 to the financial period ended 31 December 2015, it was deemed unnecessary to hold any meeting. Prior to this, items that are usually required to be discussed by a Remuneration Committee are marked as separate agenda items at Board meetings when required.

The duties of the Remuneration Committee are set out in the Company's Remuneration and Nomination Committee Charter which is available on the Company's website

The Board has adopted a Remuneration and Nomination Committee Charter which describes the role, composition, functions and responsibilities of the Remuneration Committee and is disclosed on the Company's website.

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**Principle 8: Remunerate fairly and responsibly (Continued)**

***Recommendation 8.2***

Details of the Company's policies on remuneration will be set out in the Company's "Remuneration Report" in each Annual Report published by the Company. This disclosure will include a summary of the Company's policies regarding the deferral of performance-based remuneration and the reduction, cancellation or clawback of the performance-based remuneration in the event of serious misconduct or a material misstatement in the Company's financial statements.

***Recommendation 8.3***

The Company's Security Trading Policy includes a statement on the Company's policy on prohibiting participants in the Company's Performance Rights Plan entering into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the Performance Rights Plan.

***Security Trading Policy***

In accordance with ASX Listing Rule 12.9, the Company has adopted a trading policy which sets out the following information:

- (a) closed periods in which directors, employees and contractors of the Company must not deal in the Company's securities;
- (b) trading in the Company's securities which is not subject to the Company's trading policy; and
- (c) the procedures for obtaining written clearance for trading in exceptional circumstances.

The Company's Security Trading Policy is available on the Company's website.

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**CORPORATE DIRECTORY**

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**Directors**

Paul Price  
KC Ong  
Soo Tuck Yoon  
Michael Siu  
Qian Xu  
Ching Chung

**Company Secretary**

Deborah Ho

**Registered Office**

CAQ Holdings Limited  
c/o Trident Management Services Pty Ltd  
Level 24  
44 ST George's Terrace  
Perth, WA 6000  
Telephone: (08) 6211 5099

**Principal Place of Business**

CAQ Holdings Limited  
c/o. Beijing Properties (Holdings) Limited  
66/F, Central Plaza  
18 Harbour Road  
Wanchai, Hong Kong  
Telephone: (852) 2511 6016

**Share Registry**

Advanced Share Registry Services  
150 Stirling Hwy  
Nedlands WA 6009  
Telephone: (08) 9389 8033

**Auditors**

BDO Audit (WA) Pty Ltd  
38 Station Street  
Subiaco WA 6008  
Telephone: (08) 6382 4600

**Stock Exchange**

The Company is listed on the Australian Securities Exchange (Code: CAQ). The Home Exchange is Perth.

**Other Information**

CAQ Holdings Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

**Website**

[www.cellaquaculture.com.au](http://www.cellaquaculture.com.au)