



18 December 2019

Company Announcements Office
ASX Limited
Sydney, NSW
Australia

Opening of the Cross Border E-Commerce Outlets

Following the announcement of 30 May 2019, CAQ Holdings Limited (ASX: CAQ) is pleased to announce the grand opening of the first experience outlet in China and the launch of the online shop. The retail project is a joint venture, based in Hainan Island, was established by CAQ with the Mission Hill Group. After successful business registration earlier this year, the joint venture was named Hainan Kingmall International Trading Co., Ltd. (“Kingmall”) and Kingmall has also been used as the name of our experience outlets and the online shop.

Under the terms of the joint venture CAQ Finance (HK) Limited, a wholly owned subsidiary of CAQ, and Hainan Xunhao Business Management Company Limited, a wholly owned subsidiary of Mission Hills, established Kingmall on a 50/50 equity basis. Kingmall is utilising the strengths of both joint venture partners in developing online and offline e-commerce retail business in Hainan Island, China.

The opening of the first retail experience outlets represents a significant step in the development of the CAQ retail model. The model utilises changes to the tax regime, applying to Chinese citizens purchasing international products, to deliver benefits to its customers. CAQ is utilising its existing infrastructure base in the Hainan Island Haikou Integrated Free Trade Zone to assist Kingmall’s development of retailing activities both with in-store “experience” outlets and online.

Retail activities undertaken by Kingmall provide a transitional step in the CAQ’s development strategy activating underutilised infrastructure. The strategy is designed to drive the Company’s revenue growth over the next five years.

Experience Outlets

On 18 December 2019, the first retail experience outlet with physical area of 372 square metres opened in the Haikou Wanda Shopping Mall. The flagship outlet of Kingmall with physical area of 500 square metres is scheduled to open on or about 25 December 2019 at the Mission Hill New City of Haikou.

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Haikou Wanda Shopping Mall Experience Outlet design

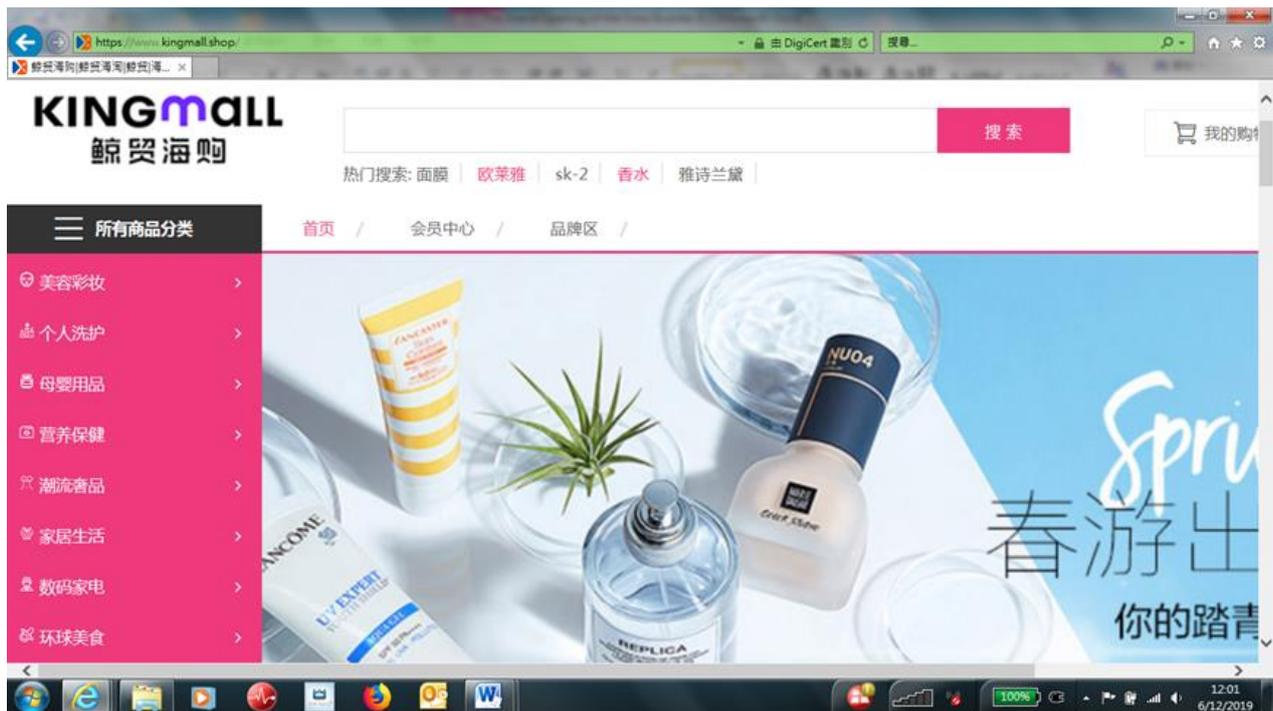


Flagship experience outlet to be opened at Mission Hill New City

Online Distribution Outlet

Leveraging off CAQ's strong physical warehousing asset base within the Haikou Integrated Free Trade Zone, Kingmall has established an online distribution network to coincide with the opening of physical stores. This e-strategy is directed at enabling Kingmall, and CAQ, to maximise benefits available through customs initiatives providing benefits to customers purchasing international products.

Kingmall's online shop (link: <http://www.kingmall.shop>) has also been launched for test run since 12 December 2019.



The range of products available include cosmetics, personal health care products, digital and electronics items, foods and luxury items of internationally recognized brands. Under the special custom policy enjoyed by Kingmall, the product price of which can be sold 20% to 40% less than the market price and goods are under the monitoring system of the Chinese customs to ensure they are genuine goods.

Regulatory Changes to Drive Demand

In the past, unless going to buy directly from overseas, Chinese citizens buying imported goods usually did so through buying agents who will charge a fee on top of the original price of the goods. The annual quota for each Chinese aged over sixteen buying tax free items was RMB20,000 (approximately AU\$4,150) with maximum amount for each transaction is RMB2,000 (AU\$415). Under the new cross-border e-commerce policy promulgated by the Chinese customs, the annual the maximum amount of each transaction of Chinese citizens aged over sixteen to buy tax free imported goods is increased to RMB26,000 (AU\$5,400) and RMB5,000 (AU\$1,040) respectively.

Kingmall also benefits from a reduction of 30% on the chargeable value-added tax of goods (existing rate $13\% * 70\% = 9.1\%$) and the taxes payables is paid monthly to the customs after sales. The Company's wholly owned subsidiary, Haikou Peace Base Industry Development Co., Ltd. ("HPB"), has established warehousing infrastructure in the Haikou Integrated Free Trade Zone on Hainan Island comprising a bonded area under the management of the customs.

Kingmall sources good from overseas suppliers and leases the bonded warehouses of HPB for customs' registration into their system. Then the goods will be moved to Kingmall experience outlets and online shops for sale. This will provide greater convenience to Chinese citizens purchasing imported goods and a lower price as a result of lower tax and lower transaction costs.

Further, unlike the previous buying experience of Chinese citizens where they had to wait for postage of goods by agents as requested by the applicable laws in China, the customers are now enable to buy goods in experience outlets, such as Kingmall, with instant custom clearance services and therefore can pick up the goods immediately. This is a new business model of cross-border e-commerce jointly developed by HPB, Kingmall and the Customs authorities.

Background Hainan Island

In 2018 more than 76 million (Chinese) domestic and overseas tourists visited southern China's island province of Hainan, where CAQ's warehousing and retail operations are based. Hainan's tourism revenue rose in 2018 by 14.5 percent over the previous year to RMB 95 billion (approx. AU\$20 billion). According to official data, two duty free malls, one in the provincial capital of Haikou and the other in the resort town of Sanya, received 2.88 million customers and sold over RMB10b (AU\$2.1b) in goods.

CAQ has developed the Haikou Project on Chinese Island of Hainan, comprising over 79,210 square metres of multi level buildings within a complex containing factories, warehouses, commercial and administrative buildings. In addition to core operations CAQ is utilising the complex to develop retail sector strategies leveraging off CAQ's core infrastructure base.

Ends

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

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