

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

APPENDIX 4E – PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

Results for announcement to market	Up/Down	% Change	31 December 2018
			\$
Revenue from ordinary activities	Down	55%	535,768
Loss after tax from ordinary activities attributable to members	Up	4%	(2,477,151)
Loss attributable to members	Up	4%	(2,477,151)
			Franked Amount per share
			Amount per share
Dividend Information			
Dividend – current reporting period		Nil	Nil
Dividend – previous reporting period		Nil	Nil
Net Tangible Asset Backing per Ordinary Share			cents
Net tangible asset backing per ordinary share – current reporting period			9.26
Net tangible asset backing per ordinary share – previous reporting period			9.22

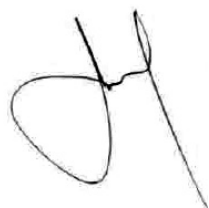
Commentary on the Results for the Period

The loss after tax for the year ended 31 December 2018 was incurred in the ordinary course of business.

The increase in loss after tax compared to the prior year is mainly attributable to the increase in staff costs, the increase in expected credit loss expenses, the increase in general administration expenses, the decrease in the jewellery sale revenue offset by the increase in rental revenue and the increase in the fair value of the investment property. Refer to further analysis in the review of operations and changes in state of affairs in the following page.

Audit

This Preliminary Final Report is based on the Consolidated Annual Financial Report which is in the process of being audited.



Michael Siu
Director

Dated at Hong Kong this 28 day of February 2019.

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REVIEW OF OPERATIONS AND CHANGES IN STATE OF AFFAIRS
FOR THE YEAR ENDED 31 DECEMBER 2018

Review of Operations and Changes in State of Affairs

Operations

During the year ended 31 December 2018, the Group operation continued with jewellery business and leasing business. While restructuring of operations occurred in the Company's subsidiary, Haikou Peace Base Development Co. Limited's ("HPB"), physical jewellery stores and e-commerce platforms continued operations throughout the year. HPB consigned its product in jewellery stores in Haikou Meilan Airport Duty-Free Mall and in Haikou Mova Mall as well as a jewellery e-commerce platform and a jewellery e-store on the Jing Dong Mall e-commerce platform.

The Group restructured its jewellery business distribution network in order to improve control of operational costs. This resulted in a reduction in the number of physical jewellery stores and strengthening of cooperation with other retail services providers. Due to the restructure HPB suspended wholesale business with a major customer. Jewellery sales revenue decreased from \$1,009,292 in 2017 to \$101,349 in 2018.

The Group recorded a significant improvement on its property leasing business, located in Haikau. Rental revenue has increased from \$181,166 in 2017 to \$434,419 in 2018. This can be mainly attributed to increases in occupancy rates, which climbed to 45% at the end of the period. The Group expects the occupancy rate to maintain an upward trend in 2019.

During the year, the Group recognized a fair value gain of investment property of \$728,815. The gain is mainly attributable to an improvement in occupancy rate and general economic condition.

There were increases in overall expense of the Group compare with 2017. This was mainly due to increases in professional fees related to completion the calculation of construction cost of property located in Haikau which is one-off in nature, general inflation of staff cost and a charge arising from an expected credit loss expense of \$715,864.

Corporate

On 10 May 2018, Ms Deborah Ho were resigned as Company Secretary of the Company.

On 14 May 2018, Mr. Mark Maine were appointed as Company Secretary of the Company.

On 17 May 2018, Mr. Richard Soo, were resigned as Non-Executive Directors of the Company.

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CONSOLIDATED STATEMENT PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	<i>Note</i>	Consolidated Year ended 31 December 2018 \$	Consolidated Year ended 31 December 2017 \$
Revenue from continuing operations			
Revenue from contracts with customers		535,768	1,190,458
Other revenue		682,398	838,686
Total revenue from continuing operations		1,218,166	2,029,144
Purchase and changes in trading stock		(57,452)	(959,385)
Foreign currency gain		424,740	28,848
Legal expenses		(102,789)	(48,441)
Accounting, auditing fees and consultancy expenses		(218,475)	(159,067)
Directors fees and salary		(1,769,362)	(1,379,182)
Insurance expenses		(39,259)	(31,794)
Occupancy costs		(61,865)	(24,000)
Travel costs		(328,024)	(350,308)
Finance costs		(1,582)	(99,817)
Administration expenses		(390,646)	(200,068)
Other expenses		(272,010)	(456,911)
Depreciation		(331,953)	(324,907)
Expected credit loss on other receivables		(715,864)	–
Change in fair value of Investment Properties	2	728,815	–
Loss from continuing operations before Income Tax		(1,917,560)	(1,975,888)
Income tax expense		(559,591)	(403,929)
Loss after income tax for the year		(2,477,151)	(2,379,817)

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CONSOLIDATED STATEMENT PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	<i>Note</i>	Consolidated Year ended 31 December 2018 \$	Consolidated Year ended 31 December 2017 \$
Other comprehensive profit/(loss)			
<i>Items that may be reclassified to the profit or loss</i>			
Exchange differences on translation of foreign operations		2,766,225	(516,694)
Total comprehensive profit/(loss) for the year		289,074	(2,896,511)
Loss is attributable to:			
Owners of CAQ Holdings Limited		(2,477,151)	(2,379,817)
Non-controlling interests		—	—
		(2,477,151)	(2,379,817)
Total comprehensive profit/(loss) for the year is attributable to:			
Owners of CAQ Holdings Limited		289,074	(2,896,511)
Non-controlling interests		—	—
		289,074	(2,896,511)
Loss per share attributable to the members of			
CAQ Holdings Limited			
Basic and diluted loss per share	5	Cents Per Share <u>(0.34)</u>	Cents Per Share <u>(0.35)</u>

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	<i>Notes</i>	Consolidated 31 December 2018	Consolidated 31 December 2017
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents		4,318,791	7,295,576
Trade and other receivables		1,781,807	1,244,479
Inventory		1,400,446	1,350,180
Other current assets		223,391	102,820
		<u>7,724,435</u>	<u>9,993,055</u>
TOTAL CURRENT ASSETS			
NON-CURRENT ASSETS			
Property, plant & equipment		373,283	425,562
Investment property	2	60,320,526	56,933,654
Intangibles		16,902	63,472
Other receivables		863,082	–
		<u>61,573,793</u>	<u>57,422,688</u>
TOTAL NON-CURRENT ASSETS			
		<u>69,298,228</u>	<u>67,415,743</u>
TOTAL ASSETS			
CURRENT LIABILITIES			
Trade and other payables		1,293,241	356,217
Tax payable		20,441	5,696
Accruals		72,443	38,204
		<u>1,386,125</u>	<u>400,117</u>
TOTAL CURRENT LIABILITIES			

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	<i>Notes</i>	Consolidated 31 December 2018 \$	Consolidated 31 December 2017 \$
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,416,209	808,806
TOTAL NON-CURRENT LIABILITIES		1,416,209	808,806
TOTAL LIABILITIES		2,802,334	1,208,923
NET ASSETS		66,495,894	66,206,820
EQUITY			
Contributed equity	3	74,649,048	74,649,048
Accumulated losses		(10,770,851)	(8,293,700)
Reserves	4	2,617,697	(148,528)
TOTAL EQUITY		66,495,894	66,206,820

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Contributed equity \$	Accumulated losses \$	Foreign Currency Translation Reserve \$	Total \$
Balance at 1.1.2018	74,649,048	(8,293,700)	(148,528)	66,206,820
Loss for the year	–	(2,477,151)	–	(2,477,151)
Exchange differences on foreign currency translation	–	–	2,766,225	2,766,225
Total comprehensive profit/(loss) for the period	–	(2,477,151)	2,766,225	289,074
Balance at 31.12.2018 (Consolidated)	74,649,048	(10,770,851)	2,617,697	66,495,894
	Contributed equity \$	Accumulated losses \$	Foreign Currency Translation Reserve \$	Total \$
Balance at 1.1.2017	62,102,608	(5,913,883)	368,166	56,556,891
Loss for the year	–	(2,379,817)	–	(2,379,817)
Exchange differences on foreign currency translation	–	–	(516,694)	(516,694)
Total comprehensive loss for the period	–	(2,379,817)	(516,694)	(2,896,511)
Transaction with owners in their capacity as owners:				
Issue of share (net of issue costs)	12,546,440	–	–	12,546,440
Balance at 31.12.2017 (Consolidated)	74,649,048	(8,293,700)	(148,528)	66,206,820

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

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Consolidated	Consolidated
	31 December	31 December
	2018	2017
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,766,245	1,307,549
Receipt of government subsidy	600,267	778,093
Payments to suppliers and employees	(5,766,305)	(5,064,389)
Finance costs	(6,947)	(12,239)
Interest received	11,542	11,633
Deposit refund	80,826	–
	(3,314,372)	(2,979,353)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of items of property, plant and equipments	(212,572)	(44,599)
Payment for intangible assets	–	(3,277)
Payment of construction costs	–	(929,626)
	(212,572)	(977,502)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	–	12,570,710
Cost of share issue	–	(24,270)
Advance to constructor	–	(1,576,018)
Proceeds from borrowings	–	2,066,949
Repayment of borrowings	–	(3,712,686)
	–	9,324,685
Net cash inflow from financing activities	–	9,324,685

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Consolidated 31 December 2018 \$	Consolidated 31 December 2017 \$
Net increase/(decrease) in cash and cash equivalents	(3,526,944)	5,367,830
Cash and cash equivalents at the beginning of the financial year	<u>7,295,576</u>	<u>1,497,816</u>
Effects of exchange rate changes on cash and cash equivalents	<u>550,159</u>	<u>429,930</u>
Cash and cash equivalents at end of year	<u>4,318,791</u>	<u>7,295,576</u>

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

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NOTES TO THE APPENDIX 4E

Note 1: Investments

The consolidated financial statements include the financial statements of CAQ Holdings Limited and the following wholly owned subsidiaries:

Name	Country of Incorporation	% Equity Interest	
		31 December 2018	31 December 2017
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 2: Investment Properties

	Consolidated 2018	Consolidated 2017
	\$	\$
Balance as at 1 January	56,933,654	55,174,157
Addition for the year	–	2,701,894
Fair value adjustment	728,815	–
Foreign exchange adjustment	2,658,057	(942,397)
Closing balance as at 31 December	60,320,526	56,933,654

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NOTES TO THE APPENDIX 4E

Note 3: Contributed equity

	Consolidated 31 December 2018 \$	Consolidated 31 December 2017 \$
(a) Ordinary shares	74,649,048	74,649,048
Total contributed equity	74,649,048	74,649,048
<i>* Fully paid ordinary shares carry one vote per share and carry the right to dividends.</i>		
(b) Movements in ordinary share capital		
	<i>No.</i>	<i>\$</i>
Balance as at 1 January 2017	654,932,730	62,102,608
Issue of shares ¹ (net of issue costs)	62,853,551	12,546,440
Closing balance as at 31 December 2017	717,786,281	74,649,048
Balance as at 1 January 2018	717,786,281	74,649,048
No movement	—	—
Closing balance as at 31 December 2018	717,786,281	74,649,048

¹ On 29 August 2017, the Company successfully completed a sophisticated investor placement raising \$12,546,440 (net of costs). The Company issued 62,853,551 fully paid ordinary 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 2018 (2017: Nil).

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NOTES TO THE APPENDIX 4E

Note 4: Reserves

The foreign currency reserve is used to recognise exchange difference arising from translation of financial statements of foreign operations to Australian dollars.

Note 5: Loss per share

Basic loss per share amounts are calculated by dividing net 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:

	Consolidated 31 December 2018 \$	Consolidated 31 December 2017 \$
Loss attributable to ordinary equity holders	<u>(2,477,151)</u>	<u>(2,379,817)</u>
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic profit/(loss) per share	<u>717,786,281</u>	<u>676,457,919</u>
	Cents/share	Cents/share
Basic and diluted loss per share	<u>(0.34)</u>	<u>(0.35)</u>

Note 6: Operating Segment

The Group has two lines of business being property development and jewellery trading. However, due to the size of the Group's operations, the chief operating decision maker being the board of directors, reviews the operating results at the consolidated group level. Hence, the operations of the Group represent one operating segment.

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NOTES TO THE APPENDIX 4E

Note 7: Basis of Preparation

The accounting policies adopted in the preparation of this Appendix 4E are consistent with those applied by the Group in the preparation of the annual consolidated financial statements for the year ended 31 December 2017, other than the adoption of additional accounting policies set out below:

Policy applied from 1 January 2018 due to adoption of AASB 9

AASB 9 Financial Instruments (“AASB 9”)

The Group has adopted AASB 9 as issued in July 2014 with the date of initial application being 1 January 2018. In accordance with the transitional provisions in AASB 9, comparative figures have not been restated. AASB 9 replaces AASB 39 Financial Instruments: Recognition and Measurement (“AASB 39”), bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The accounting policies have been updated to reflect the application of AASB 9 for the period from 1 January 2018.

Measurement and classification

Under AASB 9, debt instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group’s business model for managing the assets; and whether the instruments’ contractual cash flows represent ‘solely payments of principal and interest’ on the principal amount outstanding (the ‘**SPPI criterion**’). The SPPI test is applied to the entire financial asset, even if it contains an embedded derivative. Consequently, a derivative embedded in a debt instrument is not accounted for separately.

At the date of initial application, existing financial assets and liabilities of the Group were assessed in terms of the requirements of AASB 9. The assessment was conducted on instruments that had not been derecognised as at 1 January 2018. In this regard, the Group has determined that the adoption of AASB 9 has impacted the classification of financial instruments at 1 January 2018 as follows:

Class of financial instrument presented in the statement of financial position	Original measurement category under AASB 9 (i.e. prior to 1 January 2018)	New measurement category under AASB 9 (i.e. from 1 January 2018)
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Trade and other receivables	Loans and receivables	Financial assets at amortised cost
Deposits	Loans and receivables	Financial assets at amortised cost
Trade and other payables	Financial liability at amortised cost	Financial liability at amortised cost

The change in classification has not resulted in any re-measurement adjustments at 1 January 2018.

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Impairment of financial assets

In relation to the financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model under AASB 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, AASB 9 requires the Group to measure the loss allowance at an amount equal to lifetime expected credit loss (“ECL”) if the credit risk on the instrument has increased significantly since initial recognition. If the credit risk on the financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

As at 1 January 2018, the Group reviewed and assessed the existing financial assets for impairment using reasonable and supportable information. In accordance with AASB 9, where the Group concluded that it would require undue cost and effort to determine the credit risk of a financial asset on initial recognition, the Group recognises lifetime ECL. The result of the assessment is as follows:

Items existing as at 1 January 2018 that are subject to the impairment provisions of AASB 9	Credit risk attributes	Cumulative additional loss allowance recognised on 1 January 2018 \$'000:
Cash and cash equivalents and deposits	All bank balances are considered to have low credit risk at each reporting and thus it was assessed to attract negligible ECL.	–
Trade receivables & deposits	The Group applied the simplified approach and concluded that the lifetime ECL for these assets would be negligible and therefore no loss allowance was required at 1 January 2018. The Group’s exposure to credit risk is mainly related to one customer which operate on a 3 months credit term. The customer has historically met all obligations and accordingly, no loss allowance has been recognised at 31 December 2017 and 30 June 2018.	–

Hedge accounting

The Group has not applied not applied hedge accounting.

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AASB 15 Revenue from Contracts with Customers (“AASB 15”)

The Group has adopted AASB 15 with the date of initial application being 1 January 2018. In accordance with the transitional provisions in AASB 15 the standard has been applied using the full retrospective approach. In this regard, the Group applied a practical expedient and did not restate any contracts that were completed at the beginning of the earliest period presented.

AASB 15 supersedes AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group’s principal sources of income comprise rental income, revenue from sale of diamonds and commission. Rental income (income from lease contracts) is scoped out of AASB 15 and revenue from sale of diamonds and commission is recognised when the diamonds are delivered – there are no multiple performance obligations in relation to revenue from sale of diamonds and commission. Accordingly, adoption of AASB 15 did not have a significant impact on the Group.