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## APPLICATION PROOF OF



# TOKYO CHUO AUCTION HOLDINGS LIMITED 東京中央拍賣控股有限公司

*(incorporated in Hong Kong with limited liability)*  
**(the “Company”)**

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# TOKYO CHUO AUCTION HOLDINGS LIMITED

東京中央拍賣控股有限公司

(Incorporated in Hong Kong with limited liability)

### [REDACTED]

Number of [REDACTED] under : [REDACTED] Shares (subject to adjustment and  
the [REDACTED] the [REDACTED])  
Number of [REDACTED] : [REDACTED] Shares (subject to adjustment)  
Number of [REDACTED] : [REDACTED] Shares (subject to adjustment and  
the [REDACTED])  
[REDACTED] [REDACTED] : [REDACTED]  
[REDACTED] : [●]

### Sole Sponsor



CMBC International Capital Limited

[REDACTED], [REDACTED], [REDACTED]

[REDACTED]

[REDACTED]

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The [REDACTED] is expected to be determined by agreement between our Company and the [REDACTED] (on behalf of the [REDACTED]) on the [REDACTED]. The [REDACTED] is expected to be on or around [REDACTED] or such later time as may be agreed by our Company and the [REDACTED] (on behalf of the [REDACTED]), but in any event no later than [REDACTED]. The [REDACTED] will be not more than [REDACTED] per [REDACTED] and is currently expected to be not less than [REDACTED] per [REDACTED]. [REDACTED] applying for [REDACTED] must pay, on [REDACTED], the maximum [REDACTED] of [REDACTED] per [REDACTED], unless otherwise announced, together with a [REDACTED], subject to refund if the [REDACTED] is lower than [REDACTED]. The [REDACTED] (on behalf of the [REDACTED]), with the consent of our Company, may reduce the number of [REDACTED] being [REDACTED] under the [REDACTED] and/or the [REDACTED] stated in this document at any time prior to the morning of the last day for lodging [REDACTED] under the [REDACTED]. In such a case, a notice of the reduction in the number of [REDACTED] being [REDACTED] under the [REDACTED] and/or of the [REDACTED] will be published in the South China Morning Post (in English) and Hong Kong Economics Times (in Chinese) and on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.chuo-auction.com.hk](http://www.chuo-auction.com.hk) not later than the morning of the last day for lodging [REDACTED] under the [REDACTED]. Further details are set out in the sections headed “Structure of the [REDACTED]” and “How to Apply for [REDACTED]” in this document. If, for any reason, the [REDACTED] is not agreed between our Company and the [REDACTED] (on behalf of the [REDACTED]) on or before [REDACTED], the [REDACTED] will not proceed and will lapse.

Pursuant to the termination provisions contained in the [REDACTED] in respect of the [REDACTED], the [REDACTED], for itself and on behalf of the [REDACTED], have the right in certain circumstances, in the sole discretion of the [REDACTED], to terminate the obligations of the [REDACTED] pursuant to the [REDACTED] at any time prior to 8:00 a.m. (Hong Kong time) on the [REDACTED] when [REDACTED] in our Shares first commence on the Stock Exchange (such first [REDACTED] is currently expected to be on [REDACTED]). Further details of the terms of the termination provisions are set out in the paragraph headed “Grounds for termination of the [REDACTED]” under the section headed “[REDACTED]” in this document. It is important that you refer to that section for further details.

The [REDACTED] have not been, and will not be, registered under the [REDACTED] or any [REDACTED] of the United States and may not be [REDACTED], sold, pledged or transferred within the United States, except in transactions exempt from, or not subject to, the registration requirements of the [REDACTED]. The [REDACTED] are being [REDACTED] and sold solely to [REDACTED] as defined in Rule 144A pursuant to an exemption from registration under the [REDACTED] and outside the United States in reliance on [REDACTED] under the [REDACTED].

[REDACTED]

## **EXPECTED TIMETABLE<sup>(1)</sup>**

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**[REDACTED]**

## **EXPECTED TIMETABLE<sup>(1)</sup>**

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**[REDACTED]**

## **EXPECTED TIMETABLE<sup>(1)</sup>**

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**[REDACTED]**

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## SUMMARY

*This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this document. You should read the whole document (including the appendices hereto, which constitute an integral part of this document) before you decide to [REDACTED] in the [REDACTED]. There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set out in the section headed “Risk Factors” in this document. You should read this section carefully before you decide to [REDACTED] in the [REDACTED].*

## OVERVIEW

We are one of the leading auction houses of Chinese and Japanese artworks in Hong Kong and Japan. We specialize in auctioneering a wide variety of artworks with emphasis on Chinese and Japanese artworks, including Chinese paintings and calligraphies, Chinese antiques and Japanese and Chinese tea wares. With over seven years of operating experience in the Chinese and Japanese art auction industry, we have grown into a well recognized and trusted auction brand in Hong Kong and Japan, and successfully established the leading market positions, well-known brand name and strong competitiveness.

According to the CIC Report, in 2017, we ranked (i) fourth among all auction houses with Chinese art auction business in Asia (excluding Mainland China) with a market share of 6.5%, in terms of transaction value from the Chinese art auction business, (ii) second and fifth among all auction houses with Chinese art auction business in Japan and Hong Kong with a market share of 26.8% and 4.4%, in terms of transaction value from the Chinese art auction business in Japan and Hong Kong, respectively, and (iii) fifth among all auction houses with Japanese art auction business both in Japan and Hong Kong with a market share of 3.1% and 1.4%, in terms of transaction value from the Japanese art auction business in Japan and Hong Kong, respectively.

According to the CIC Report, we are one of the top quality auction houses of Chinese and Japanese artworks in Hong Kong and Japan. We are well recognized by our customers for the high quality of auctioned artworks and the auction services we provide, which significantly contributes to the market recognition for our “Tokyo Chuo Auction” brand. We take pride in being an auction house with the ability to explore and introduce the historical and cultural significance as well as the commercial value of each artwork.

For the years ended March 31, 2016, 2017, and 2018, our revenue was approximately HK\$138.6 million, HK\$148.0 million, and HK\$173.3 million, respectively, representing a CAGR of approximately 11.8% from the year ended March 31, 2016 to the year ended March 31, 2018. During the Track Record Period, our profit attributable to owners of the Company was approximately HK\$18.5 million, HK\$30.8 million, and HK\$44.1 million, respectively.

The following table sets forth a breakdown of revenue by business segment for the periods stated:

	Year ended March 31,					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Art auction and related business	133,251	96.1	137,588	92.9	164,596	95.0
Artwork sales	5,362	3.9	10,460	7.1	8,670	5.0
	<u>138,613</u>	<u>100</u>	<u>148,048</u>	<u>100</u>	<u>173,266</u>	<u>100</u>

## OUR BUSINESS

### Art auction and related business segment

We primarily engage in art auction operations acting as an agent by sourcing and accepting artworks on consignment. We foster market demand through professional, history-focused and culture-oriented



## SUMMARY

marketing techniques. We then match the needs of consignors to those of buyers at art auctions. We specialize in auctioneering a wide variety of artworks with emphasis on Chinese and Japanese artworks, including Chinese paintings and calligraphies, Chinese antiques and Japanese and Chinese tea wares.

For the years ended March 31, 2016, 2017, and 2018, the revenue of our art auction and related business segment was approximately HK\$133.3 million, HK\$137.6 million, and HK\$164.6 million, respectively. The table below sets forth a breakdown of art auction and related business revenue by artwork category for the periods indicated:

	Year ended March 31,					
	2016		2017		2018	
	<i>(HK\$'000)</i>	(%)	<i>(HK\$'000)</i>	(%)	<i>(HK\$'000)</i>	(%)
<b>Art auction and related business revenue</b>						
Chinese paintings and calligraphies	68,787	51.6	86,926	63.2	101,038	61.4
Chinese antiques	44,688	33.5	37,098	27.0	42,602	25.9
Japanese and Chinese tea wares	10,635	8.0	7,977	5.8	13,654	8.3
Others	9,141	6.9	5,587	4.0	7,302	4.4
<b>Total</b>	<u>133,251</u>	<u>100</u>	<u>137,588</u>	<u>100</u>	<u>164,596</u>	<u>100</u>

The following table sets forth the aggregate hammer price of artwork auction lots in connection with our auction transactions during the Track Record Period:

	Auction transactions		
	Year ended March 31,		
	2016	2017	2018
<b>Aggregate hammer price (HK\$'000)</b>			
Chinese paintings and calligraphies	333,848	417,384	468,701
Chinese antiques	232,282	176,417	186,879
Japanese and Chinese tea wares	50,557	44,487	40,367
Others	35,641	9,278	43,073
<b>Total</b>	<u>652,328</u>	<u>647,566</u>	<u>739,020</u>

We collect commissions as our revenue from both buyers (or bidders) and sellers (or consignors) upon settlement of art auction sales based on the hammer price. In addition, we also charge the sellers relevant fees upon settlement of art auction sales for the services we provided in relation to the auction catalog, insurance and other auction-related services, the amount of which is determined based on factors such as the hammer price of the consigned artwork and the coverage size of the artwork in the auction catalog and through negotiation with the sellers.

Our customers under the art auction and related business primarily include sellers and buyers who consign or purchase artworks in our auctions. To the best knowledge of our Directors, our customers are generally comprised of artwork interested parties including artworks artists, masters, experts, merchants, collectors, art galleries and museums.

## SUMMARY

### Artwork sales segment

We purchase artworks which we believe have appreciation potential and resell them at an appropriate time to make profit. We acquire artworks through participating in art auctions or directly through private sales. Our Internal Artwork Appraisal Team will authenticate the artworks and assess their values in accordance with our internal control policy.

During the Track Record Period, we generated revenue of approximately HK\$5.4 million, HK\$10.5 million, and HK\$8.7 million, respectively, under our artwork sales segment for the years ended March 31, 2016, 2017 and 2018.

The following table sets forth a breakdown of revenue we generated from our artwork sales segment for the periods indicated:

	Year ended March 31,					
	2016		2017		2018	
	<i>(HK\$'000)</i>	%	<i>(HK\$'000)</i>	%	<i>(HK\$'000)</i>	%
<b>Revenue</b>						
Chinese paintings and calligraphies	1,531	28.6	4,450	42.5	8,210	94.7
Chinese antiques	1,173	21.9	4,395	42.0	460	5.3
Others	2,658	49.5	1,615	15.5	—	—
<b>Total</b>	<b>5,362</b>	<b>100</b>	<b>10,460</b>	<b>100</b>	<b>8,670</b>	<b>100</b>

Our customers under the artwork sales segment are buyers to whom we sell artworks as principal. To the best knowledge of our Directors, our customers under the artwork sales segment are generally comprised of artwork collectors and merchants.

Through years of effort, we have successfully built a solid and expanding customer base. As of March 31, 2018, we had developed solid and stable business relationships with our top five customers ranging from 0.5 to 7 years. Revenue derived from our top five customers contributed approximately 17.6%, 18.2%, and 24.4% to our total revenue for the years ended March 31, 2016, 2017 and 2018, respectively. For further details of our customers, please refer to the section headed “Business — Customers” in the document.

### SALES AND MARKETING

Our marketing activities are mostly conducted prior to the time of the organization of art auctions. Prior to each auction, we conduct various marketing and promotional events to promote market interests to, and stimulate awareness of our art auctions. Major events include producing and distributing auction catalogs, organizing artworks preview exhibition, publishing advertisements, marketing and auction information on newspapers, art magazines, television and the internet. For details, please refer to the section headed “Business — Our Business — Main Procedures of Art Auction — Marketing” of this document.

### OUR SUPPLIERS

Our suppliers mainly include sellers from whom we purchase artworks as principal for our artwork sales segment, property owners who provide venue for artwork preview exhibition and art auction operation, suppliers of event organization and accommodation booking services for our artwork preview exhibition and art auction operation, suppliers of photo-taking, printing and delivery services for our auction catalogs, and suppliers of delivery services for our auctioned artworks and security and insurance services. For the years ended March 31, 2016, 2017 and 2018, our five largest suppliers together accounted for 77.5%, 73.6%, and 64.9%, respectively, of our costs of services and total purchase and our single largest supplier accounted for 25.1%, 19.1%, and 18.1%, respectively, of our costs of services and total purchase. We have had relationship with our five largest suppliers for 3.5 to 7 years as of the Latest Practicable Date. For further details of our suppliers, please refer to the section headed “Business — Suppliers” in the document.

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## SUMMARY

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### OUR COMPETITIVE STRENGTHS

Our core strengths are set out below:

- We are one of the leading auction houses of Chinese and Japanese artworks in Hong Kong and Japan with well-established brand name.
- We have established a solid and expanding customer base and maintained long-term and stable relationships with customers supported by well-established network with proven ability to source premium artworks across Asia and attract more potential buyers to participate in our art auctions.
- Our professional as well as history-focused and culture-oriented marketing techniques along with quality services maximize the transaction price of our auctioned artworks.
- We have established effective risk management and internal control systems.
- We have an experienced and stable management team led by a visionary founder.

### OUR STRATEGIES

Our business strategies and development direction are set out below:

- Further strengthening our leading position and market share in the Chinese and Japanese art auction market in Hong Kong and Japan, and enhance our brand recognition and awareness.
- Diversifying our business scope by venturing into the field of contemporary artwork and jewelry.
- Recruiting high caliber managers and experts and attract, motivate and retain quality employees to strengthen both the management and operating teams with a view to support the sustainable growth.
- Targeting to expand business footprint to other potential markets with an aim to establish and enhance brand image and brand influence in other major Asian cities and the global market.

### OUR CONTROLLING SHAREHOLDER

Upon [REDACTED], Mr. Ando will be our Controlling Shareholder and entitled to exercise and control approximately [REDACTED] of our entire issued share capital immediately following completion of the [REDACTED] and the [REDACTED] (without taking into account the Shares which may be issued upon exercise of the [REDACTED] or any options to be granted under the Share Option Scheme). Please refer to the section headed “Relationship with our Controlling Shareholder” in this document for further details. Mr. Ando is the beneficial owner of the entire issued shares of Bai Sheng, a company incorporated in Japan engaged in the trading of antiques and artworks in Japan and property investments during the Track Record Period. Pursuant to the Deed of Non-competition, upon [REDACTED], Bai Sheng will cease to be engaged in the business of trading of any antiques and artworks, and will not sell any antiques and artworks other than through our Group as selling agent. Please refer to the sections headed “Relationship with our Controlling Shareholder” and “Continuing Connected Transactions” of this document for details. Save as disclosed, none of our Controlling Shareholder and our Directors has any interest in a business apart from our Group’s business which competes or is likely to compete, directly or indirectly, with our Group’s business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

### PRE-[REDACTED] INVESTMENTS

Our Company as issuer and Mr. Ando as guarantor entered into subscription agreements with each of Mr. Chan, Happy Capricorn, Paradise Global, Mr. Tse and Mr. Yang on April 24, 2018, and Centurion Equity on April 25, 2018, in relation to the subscription of the Convertible Notes. Upon completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be allotted and issued upon exercise of the [REDACTED] or any options which may be granted under the Share

## SUMMARY

Option Scheme), each of Mr. Chan, Happy Capricorn, Paradise Global, Mr. Tse, Mr. Yang and Centurion Equity, will own as to approximately [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED] and [REDACTED] of the entire issued share capital of our Company, respectively. Please refer to the paragraph headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments” in this document for further details.

### SUMMARY OF OUR FINANCIAL INFORMATION

Our consolidated financial information has been prepared in accordance with HKFRS. Selected items of our consolidated financial statements are set out below for the periods indicated.

	Revenue			Gross Profit <sup>(Note)</sup>			Gross Profit Margins		
	Year ended March 31,			Year ended March 31,			Year ended March 31,		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
	(HK\$'000)			(HK\$'000)			(Percentages)		
Art auction and related business	133,251	137,588	164,596	96,166	106,144	131,799	72.2	77.1	80.1
Artwork sales	5,362	10,460	8,670	1,130	1,024	520	21.1	9.8	6.0
<b>Total</b>	<b>138,613</b>	<b>148,048</b>	<b>173,266</b>	<b>97,296</b>	<b>107,168</b>	<b>132,319</b>	<b>70.2</b>	<b>72.4</b>	<b>76.4</b>

*Note:* Gross profit of the art auction and related business segment and artwork sales segment represented the revenue in the respective segment minus costs of services and costs of sales of goods, respectively.

During the Track Record Period, our revenue increased at a CAGR of 11.8% primarily attributable to increase in revenue from the art auction and related business segment.

During the Track Record Period, our revenue from the art auction and related business segment increased:

- by 3.3% from approximately HK\$133.3 million to approximately HK\$137.6 million between the years ended March 31, 2016 and 2017, primarily due to (i) the increase in revenue contributed by auctions held in Hong Kong of approximately HK\$24.5 million due to our expansion of the Chinese art auction market in Hong Kong, and (ii) the increase in average commission rate, partially offset by the decrease in revenue contributed by auctions held in Japan of approximately HK\$20.2 million primarily because four auctions were held in Japan for the year ended March 31, 2016, compared to two auctions for the year ended March 31, 2017, and;
- by 19.6% from approximately HK\$137.6 million to approximately HK\$164.6 million between the years ended March 31, 2017 and 2018, primarily due to (i) our continuous expansion of the Chinese art auction market in Hong Kong, (ii) our strategy to focus on higher valued artworks in Hong Kong, (iii) our increased effort in marketing, such as holding more preview exhibitions, and (iv) the increase in average buyer’s and seller’s commission rate. Revenue under this segment increased, which was primarily due to sale of a premium Chinese painting, which contributed approximately HK\$25.7 million commission.

During the Track Record Period, our revenue from the artwork sales segment:

- increased by 95.1% from approximately HK\$5.4 million to approximately HK\$10.5 million between the years ended March 31, 2016 and 2017, primarily due to (i) increase in the total number of artworks sold from 17 to 22, and (ii) increase in average price of Chinese antiques sold; and
- decreased by 17.1% from approximately HK\$10.5 million to approximately HK\$8.7 million between the years ended March 31, 2017 and 2018, primarily due to the decrease in the number of artworks sold from 22 to 5, but the average price of artwork items increased.

## SUMMARY

The following table sets forth a breakdown of (i) our costs of services for the art auction and related business segment, which mainly consist of rental and setup fees for auction and exhibition venues and catalog production fees and (ii) our costs of sales of goods for the artwork sales segment, which mainly consist of costs for purchase of artworks for the periods indicated:

	Year ended March 31,					
	2016		2017		2018	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>(HK\$'000, except for percentages)</i>						
<b>Art auction and related business</b>						
<b>Costs of services</b>						
Rental and setup fees for auction and exhibition venues	23,385	63.0	19,672	62.6	20,594	62.8
Catalog production fees	9,596	25.9	7,644	24.3	8,660	26.4
Others	4,104	11.1	4,128	13.1	3,543	10.8
<b>Total</b>	<u>37,085</u>	<u>100</u>	<u>31,444</u>	<u>100</u>	<u>32,797</u>	<u>100</u>
<b>Artwork sales</b>						
Costs of sales of goods	<u>4,232</u>	<u>100</u>	<u>9,436</u>	<u>100</u>	<u>8,150</u>	<u>100</u>

During our Track Record Period, our gross profit margin increased:

- from 70.2% to 72.4% between the years ended March 31, 2016 and 2017, primarily due to the increase in our gross profit margin under the art auction and related business segment. The gross profit margin of our art auction and related business segment increased from 72.2% to 77.1% mainly because we had generated higher revenue in Hong Kong for the year ended March 31, 2017 as we focused on higher valued artworks, while our costs of services decreased for the year ended March 31, 2017 as only four auctions were held in both Japan and Hong Kong; and
- from 72.4% to 76.4% between the years ended March 31, 2017 and 2018, primarily due to the increase in the gross profit margin under the art auction and related business segment. The gross profit margin of our art auction and related business segment increased from 77.1% to 80.1% mainly because (i) our costs of services for each auction house held remained relatively stable, and (ii) our revenue and average commission rate increased, and in particular, for the year ended March 31, 2018, we have successfully sold a premium Chinese painting with a high hammer price, which contributed approximately HK\$25.7 million to our revenue and gross profit.

Please see the section headed “Financial Information — Description of Selected Consolidated Income Statements Line Items” for further discussion.

### Information on our consolidated balance sheets

	As at March 31,		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>	25,252	24,999	31,340
<b>Current assets</b>	<u>290,913</u>	<u>349,061</u>	<u>538,996</u>
<b>Total assets</b>	<u>316,165</u>	<u>374,060</u>	<u>570,336</u>

## SUMMARY

	As at March 31,		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current liabilities</b>	14,093	14,660	13,626
<b>Current liabilities</b>	226,997	251,665	446,301
<b>Total liabilities</b>	241,090	266,325	459,927
<b>Total equity</b>	75,075	107,735	110,409

Please see the section headed “Accountant’s Report” in Appendix I of this document for further discussion.

### Extract of our consolidated statements of cash flows

The following table sets forth selected cash flow data from our consolidated statements of cash flows for the periods indicated. For more information, please see the section headed “Accountant’s Report” in Appendix I.

	Year ended March 31,		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and cash equivalents at beginning of year	142,727	192,486	213,863
Net cash generated from/(used in) operating activities	39,788	25,813	(112,260)
Net cash used in investing activities	(6,516)	(1,276)	(6,854)
Net cash generated from/(used in) financing activities	11,074	(3,882)	(29,485)
Net increase/(decrease) in cash and cash equivalents	44,346	20,655	(148,599)
Cash and cash equivalents at end of the year	192,486	213,863	70,382

### Key financial ratios

The following table sets forth certain key financial ratios as of the periods indicated. Please see the section headed “Financial Information — Key Financial Ratios” for descriptions of the calculations and the relevant analysis of the ratios below.

## SUMMARY

	As of/Year ended March 31,		
	2016	2017	2018
Gross margin	70.2%	72.4%	76.4%
Net profit margin	14.8%	21.9%	25.4%
Adjusted net profit margin before [REDACTED]	14.8%	21.9%	31.6%
Return on equity	32.9%	37.2%	43.6%
Return on assets	7.4%	9.4%	9.3%
Current ratio	1.3	1.4	1.2
Quick ratio	1.2	1.3	1.2
Gearing ratio	42.4%	27.6%	53.8%
Net debt to equity ratio <i>(note)</i>	N/A	N/A	N/A
Interest coverage	142.2	156.9	233.9

*Note:* We were in net cash position during the Track Record Period.

### INTERNAL CONTROL AND RISK MANAGEMENT

Our sound and effective internal control and risk management systems have provided great support to us in facing different levels of operating risks in our business operations. We believe that the effectiveness and efficiency of our internal control and risk management systems are critical to the success of our growing business. Our Board of Directors supervise the overall operations of our internal control system supported by the audit committee and other working teams and committees. We have also established a comprehensive internal control system and policy to authenticate and value artworks through building up a strong expert team comprising five internal experts and seven external consultants as of the Latest Practicable Date, who are able to provide professional advice on authentication and valuation of different types of artworks in accordance with our internal procedures, so that our management could make well-informed and sound decisions. We have established a set of internal control and risk managing rules regulating our daily operations, as a result of which, we have successfully restricted our exposure to various risks inherent to our operations. For details, please see the section headed “Business — Internal Control and Risk Management” of this document. Please also see the section headed “Risk Factors — Our business prospect may be materially and adversely affected if our risk management and internal control systems (including anti-money laundering and anti-corruption) are not adequate and effective in controlling and limiting our risk exposure.” of this document for details.

### USE OF [REDACTED]

We estimate that the aggregate net [REDACTED] to our Company from the [REDACTED] (after deducting [REDACTED] and estimated expenses in connection with the [REDACTED] payable by us and assuming that the [REDACTED] is not exercised and an [REDACTED] of [REDACTED] per Share, being the mid-point of the [REDACTED] [REDACTED] [REDACTED] stated in this document) will be approximately [REDACTED]. We currently intend to apply such net [REDACTED] for the following purposes. Please see the section headed “Future Plans and Use of [REDACTED]” of this document for details.

Amount of net [REDACTED]	Intended application
<ul style="list-style-type: none"> <li>• approximately [REDACTED]%, or HK\$[REDACTED]</li> </ul>	<ul style="list-style-type: none"> <li>• strengthening and expanding existing art auction business</li> </ul>
<ul style="list-style-type: none"> <li>• approximately [REDACTED]%, or HK\$[REDACTED]</li> </ul>	<ul style="list-style-type: none"> <li>• enhancing marketing and promotional activities</li> </ul>
<ul style="list-style-type: none"> <li>• approximately [REDACTED]%, or HK\$[REDACTED]</li> </ul>	<ul style="list-style-type: none"> <li>• recruiting high caliber managers and experts</li> </ul>
<ul style="list-style-type: none"> <li>• approximately [REDACTED]%, or HK\$[REDACTED]</li> </ul>	<ul style="list-style-type: none"> <li>• developing the Group’s ERP system</li> </ul>
<ul style="list-style-type: none"> <li>• approximately [REDACTED]%, or HK\$[REDACTED]</li> </ul>	<ul style="list-style-type: none"> <li>• supplementing the Group’s working capital and for general corporate purposes</li> </ul>



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## SUMMARY

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### [REDACTED] STATISTICS

	Based on an [REDACTED] of HK\$[REDACTED] per Share	Based on an [REDACTED] of HK\$[REDACTED] per Share
	HK\$	HK\$
[REDACTED] of our Shares upon completion of the [REDACTED] <sup>(1)</sup> Unaudited pro forma adjusted combined net tangible assets per Share <sup>(2)</sup>	[REDACTED] [REDACTED]	[REDACTED] [REDACTED]

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*Notes:*

- (1) Calculated based on [REDACTED] Shares expected to be in issue immediately upon completion of the [REDACTED] and the [REDACTED] and taking no account of any shares which may be allotted and issued pursuant to the exercise of the [REDACTED] or any options to be granted under the Share Option Scheme.
- (2) The unaudited pro forma adjusted net tangible assets per Share is calculated after making the adjustments referred to in Appendix II to this document and taking into no account of any Shares which may be issued pursuant to the [REDACTED] or any options which may be granted under the Share Option Scheme. Please refer to Appendix II to this document for further details regarding the assumptions and calculation method.

### [REDACTED] EXPENSES

The [REDACTED] expenses in connection with the [REDACTED] primarily consist of [REDACTED] and professional fees and, assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the proposed [REDACTED] range, are estimated to be HK\$[REDACTED]. During the Track Record Period, we incurred [REDACTED] expenses of HK\$[REDACTED], of which HK\$[REDACTED] was recognized in the consolidated statement of comprehensive income for the year ended March 31, 2018 and HK\$[REDACTED] was recognized as prepayments in the consolidated statement of financial position as at March 31, 2018 which will be accounted for as a deduction from equity upon [REDACTED]. Subsequent to the Track Record Period, we expect to further incur [REDACTED] expenses of HK\$[REDACTED] prior to and upon completion of the [REDACTED].

### DIVIDEND POLICY

During the Track Record Period, we have not declared and/or paid any dividends to our Shareholders. Currently, we do not have any dividend policy or specific dividend plan. Subject to our constitutional document and the Companies Ordinance, through a general meeting, we will declare dividends from the profit of the forthcoming periods, but no dividends shall exceed the amount recommended by our Directors. Our Directors will consider, from time to time, to pay to our shareholders such interim dividends as our Directors deem to be justified by our financial conditions and profits. The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows, financial condition, operating and capital requirements, future prospects and other factors that our Directors may deem relevant.

### SUMMARY OF RISK FACTORS

There are a number of risk factors involved in our business operations, including:

- The demand for artworks is unpredictable and may materially and adversely affect our ability to sell artworks, our business, financial condition and results of operations.
- We are not able to predict the future trend of the art auction market, the availability and popularity of artworks, which may materially and adversely affect our operations, thus the financial results of operations.



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## SUMMARY

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- Our business could be adversely affected if we are unable to develop or maintain our existing customer base, in particular, our relationship with customers and business partners. Any interruption in such relationship could have a material and adverse effect on our business.
- Our business is subject to risks relating to the authentication, valuation of artworks and relevant prices and management’s determination of artworks, which rely on the subjective judgment of our management and experts.
- Our business is exposed to concentration risks to certain types of artworks in our business.

A detailed discussion of the risk factors is set forth in the section headed “Risk Factors” of this document.

### OUR INDUSTRY AND COMPETITIVE LANDSCAPE

According to the CIC report, there are approximately 100 auction houses in Hong Kong as of December 31, 2017. The market is shared by a variety of players, including both domestic and foreign companies. The top five players collectively held 86.5% of total market share from Chinese art auction business in terms of transaction value in 2017. According to the CIC Report, in 2017, we ranked (i) fifth among all auction houses with Chinese art auction business in Hong Kong with a market share of 4.4%, in terms of transaction value from the Chinese art auction business in Hong Kong, and (ii) fifth among all auction houses with Japanese art auction business in Hong Kong with a market share of 1.4%, in terms of transaction value from the Japanese art auction business in Hong Kong.

According to the CIC report, there are approximately ten auction houses with Chinese art auction business in Japan. The market is dominated by local players, which have taken the top three positions and collectively held 77.4% of the total market share in terms of transaction value in 2017. According to the CIC Report, in 2017, we ranked (i) second among all auction houses with Chinese art auction business in Japan with a market share of 26.8%, in terms of transaction value from the Chinese art auction business in Japan, and (ii) fifth among all auction houses with Japanese art auction business in Japan with a market share of 3.1%, in terms of transaction value from the Japanese art auction business in Japan.

Please see the section headed “Industry Overview” of this document for details of the market share and ranking of the key market players.

### RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Our business model, revenue structure and cost structure remained unchanged since March 31, 2018. The contribution by each business segment to our Group is in line with the historical record.

Subsequent to the Track Record Period and up to the Latest Practicable Date, we are preparing our 2018 Spring Auction in Hong Kong, which expects to be held from May 25 to May 28, 2018, during which we will offer approximately 600 auction lots.

On April 24, 2018 and April 25, 2018, (i) our Company as issuer, (ii) the Pre-[REDACTED] Investors as investors, and (iii) Mr. Ando as guarantor entered into several subscription agreements for the subscription of the Convertible Notes for the benefit of long-term business development of our Group. For more details, please see the subsection headed “— Pre-[REDACTED] Investments” of this section, the sections headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments” and “Risk Factors — The Shareholding percentage of the existing Shareholders will be diluted following the automatic conversion of Shares in full (but not part) on the [REDACTED].” of this document.

Our Directors confirm that, up to the date of this document, there has been no material adverse change in the industry in which we operate or in our financial and trading position or prospects since March 31, 2018 (being the date to which the latest consolidated financial information of our Group were made up), and there is no event since March 31, 2018, which would materially affect the information shown in the Accountant’s Report as set out in Appendix I to this document.

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## DEFINITIONS

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*In this document, unless the context otherwise requires, the following expressions shall have the following meanings.*

[REDACTED]

“Articles” or “Articles of Association”	the articles of association of our Company adopted on [REDACTED] and became effective on [REDACTED], as amended or supplemented from time to time
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Awaji Property”	43 real estates located in Awaji-shi, Japan with an aggregate gross floor area of approximately 13,474 sq.m.
“Bai Sheng”	Bai Sheng Co., Ltd* (株式會社百勝), a company incorporated in Japan with limited liability on September 13, 2002 and wholly owned by Mr. Ando
“Board” or “Board of Directors”	the board of directors of the Company
	[REDACTED]
“Business Day” or “business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	British Virgin Islands
“CAGR”	compound annual growth rate as measurement to assess the growth of value over time

[REDACTED]

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## DEFINITIONS

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[REDACTED]

“Centurion Equity”	Centurion Equity I Limited, a company incorporated in the BVI with limited liability on February 9, 2015, an Independent Third Party and a Pre-[REDACTED] Investor
“CIC”	China Insights Consultancy, the industry consultant
“CIC Report”	the industry report on the Chinese and Japanese art auction market in Hong Kong and Japan prepared by CIC independent of the influence of the Company and other interested parties
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“Company”, “our Company” or “the Company”	Tokyo Chuo Auction Holdings Limited 東京中央拍賣控股有限公司 (formerly known as TOKYO CHUO AUCTION (HONG KONG) CO., LIMITED 東京中央拍賣(香港)有限公司), a company incorporated in Hong Kong with limited liability on July 11, 2013
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to Mr. Ando
“Convertible Note”	the convertible note issued by our Company to each of the Pre-[REDACTED] Investors, particulars of which are set out in the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments” in this document, and collectively the “Convertible Notes”
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules

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## DEFINITIONS

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“Deed of Indemnity”	the deed of indemnity dated [REDACTED] and executed by our Controlling Shareholder with and in favor of our Company (for ourselves and as trustee for our subsidiaries stated therein), particulars of which are set out in the section headed “Statutory and General Information — Other Information — 16. Estate duty, tax and other indemnity” in Appendix IV to this document
“Deed of Non-competition”	the non-competition undertaking dated [REDACTED] and executed by our Controlling Shareholder in favor of our Company, particulars of which are set out in the section headed “Relationship with our Controlling Shareholder — Deed of Non-competition” in this document
“Director(s)” or “our Director(s)”	the director(s) of our Company
“GAAP”	generally accepted accounting principles
“GDP”	gross domestic product

[REDACTED]

“Group”, or “our Group” or “we” or “our” or “us”	our Company and its subsidiaries or where the context refers to any time prior to our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses operated by such subsidiaries or their predecessors (as the case may be)
“Guarantee”	please refer to the definition of “Guarantee” as set out the section headed “Continuing Connected Transactions” in this document
“Happy Capricorn”	Happy Capricorn Co., Limited, company incorporated in the Republic of Vanuatu on June 4, 2013, an Independent Third Party and a Pre-[REDACTED] Investor

[REDACTED]

## DEFINITIONS

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[REDACTED]

“HK\$” or “Hong Kong dollars” or  
“HKD”

Hong Kong dollars, the lawful currency of Hong Kong

“HKFRS”

Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants

[REDACTED]

“Hong Kong” or “HK”

the Hong Kong Special Administrative Region of the PRC

[REDACTED]

[REDACTED]

[REDACTED]

“IFRS”

International Financial Reporting Standards

## DEFINITIONS

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“Independent Third Party(ies)” any person(s) or entity(ies) who, as far as our Directors are aware after having made all reasonable enquiries, is/are not a connected person of our Company within the meaning of the Listing Rules

“Independent Non-executive Director(s)” or “INED(s)” independent non-executive director(s)

[REDACTED]

“Investors’ Rights Agreement” the investors’ rights agreement dated April 24, 2018 entered into between our Company, Mr. Ando, Paradise Global, Mr. Tse, Mr. Chan, Mr. Yang and Happy Capricorn, particulars of which are set out in the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments” in this document

“JPY” Japanese yen, official currency of Japan

“Latest Practicable Date” May 18, 2018, being the latest practicable date for the purpose of ascertaining certain information contained in this document prior to its publication

[REDACTED]

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## DEFINITIONS

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“Listing Committee”	the Listing Committee of the Stock Exchange
	[REDACTED]
	[REDACTED]
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange, which is independent from and operated in parallel to the GEM of the Stock Exchange
“Mr. Ando”	Mr. Ando Shokei (安藤湘桂), the chairman of our Board, an executive Director, our Controlling Shareholder and the husband of Mrs. Ando
“Mrs. Ando”	Mrs. Ando Eri (安藤惠理), an executive Director, vice chairlady of our Board and the wife of Mr. Ando
“Mr. Chan”	Mr. Chan Sai Wai (陳世偉), an Independent Third Party and a Pre-[REDACTED] Investor
“Mr. Katsu”	Mr. Katsu Bunkai (葛文海), an executive Director and the chief operating officer of our Group
“Mr. Sun”	Mr. Sun Hongyue (孫鴻月), an executive Director
“Mr. Tse”	Mr. Tse Chung Shing (謝仲成), an Independent Third Party and a Pre-[REDACTED] Investor
“Mr. Yang”	Mr. Yang Jialin (楊家林), an Independent Third Party and a Pre-[REDACTED] Investor
“Mr. Yau”	Mr. Yau Chung Hang (邱仲珩), an executive Director, the chief financial officer of our Group and the company secretary of our Company
“Mr. YC Yang”	Mr. Yang Yi Chung (楊維聰), a non-executive Director

## DEFINITIONS

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“Note Instrument”	the note instrument entered into between our Company as issuer and each of the Pre-[REDACTED] Investors as the noteholder for the issue of the Convertible Note, and collectively the “Note Instruments”
	[REDACTED]
“Paradise Global”	Paradise Global Limited, a company incorporated in Seychelles on January 5, 2016, an Independent Third Party and a Pre-[REDACTED] Investor
“PRC” or “China”	the People’s Republic of China, excluding for the purposes of this document only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC Legal Advisors”	Jingtian & Gongcheng, our legal advisors as to PRC law
“Predecessor CO”	the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong) as in force from time to time before March 3, 2014
“Pre-[REDACTED] Investments”	the investments made by each of the Pre-[REDACTED] Investors, particulars of which are set out in the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments” in this document



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## DEFINITIONS

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“Pre-[REDACTED] Investors”	collectively, Mr. Chan, Happy Capricorn, Paradise Global, Mr. Tse, Mr. Yang and Centurion Equity, and each a “Pre-[REDACTED] Investor”
“Premises”	please refer to the definition of “Premises” as set out the section headed “Continuing Connected Transactions” in this document
	[REDACTED]
“document”	this document being issued in connection with the [REDACTED]
“Reorganization”	the reorganization of our Group as set out in the section headed “History, Reorganization and Corporate Structure — The Reorganization” in this document, pursuant to which our Company became the holding company of our various subsidiaries
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of our Company
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company on [REDACTED], a summary of its principal terms is set out in the section headed “Other Information — 15. Share Option Scheme” in Appendix IV to this document
“Shareholder(s)”	holder(s) of Share(s)
“[REDACTED],” “[REDACTED]” and “[REDACTED]”	[REDACTED]
“Sole Sponsor”	CMBC International Capital Limited
“sq.m.”	square meters

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## DEFINITIONS

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“[REDACTED]”	[REDACTED]
[REDACTED]	[REDACTED]
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sublessor”	please refer to the definition of “Sublessor” as set out the section headed “Continuing Connected Transactions” in this document
“subsidiary(ies)”	has the meaning ascribed to it under section 2 of the Companies (WUMP) Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers issued by the SFC, as amended or supplemented from time to time
“TCA HK”	Tokyo Chuo Auction Hongkong Company Limited 東京中央拍賣香港有限公司, a company incorporated in Hong Kong with limited liability on February 13, 2018 and a direct wholly owned subsidiary of our Company
“TCA Japan”	Tokyo Chuo Auction Co., Ltd.* (株式會社 東京中央オークション), a company incorporated in Japan with limited liability on November 1, 2010 and a direct non-wholly owned subsidiary of our Company
“TCA Shanghai”	Shanghai Shengjia Culture Development Co., Ltd* (上海晟嘉文化發展有限公司), a company incorporated in the PRC with limited liability on May 19, 2016 and an indirect non-wholly owned subsidiary of our Company
“Tenancy Agreement”	please refer to the definition of “Tenancy Agreement” as set out the section headed “Continuing Connected Transactions” in this document
“Track Record Period”	comprises the three years ended March 31, 2016, 2017 and 2018
“TWD”	Taiwan dollar
	[REDACTED]

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## DEFINITIONS

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[REDACTED]

“United States” or “U.S.”

the United States of America

“US\$” or “U.S. dollar(s)” or “USD”

United States dollars, the lawful currency for the time being of the United States

[REDACTED]

“%”

per cent.

*For ease of reference, the English names of Chinese or Japanese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) are translations of their Chinese or Japanese names and have been included in this document for identification purpose only. In the event of any inconsistency between the Chinese/Japanese names and their English translation, the Chinese/Japanese names shall prevail. English translations of company names and other terms from the Chinese/Japanese language are marked with “\*”.*

*All times and dates refer to Hong Kong times and dates. Unless otherwise specified, references to years in this document are to calendar years.*

*Portions marked “#” indicate information that will be updated in the subsequent draft of the document.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary of technical terms contains explanations of certain technical terms used in this document. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.*

“aggregate hammer price”	total hammer price for all or some auction lots in an auction, without calculating the buyer’s commission
“annual auctions”	collectively the Autumn Auction and Spring Auction held by the Group each year
“art auction(s)”	collectively the Autumn Auctions and Spring Auctions or any one or more of them
“artwork(s)”	including but not limited to ancient and modern Chinese paintings and calligraphies, Chinese antiques, and other artworks which we accept on consignment for our art auctions
“artwork interested party(ies)”	including artworks artists, agents, masters, experts, merchants, collectors, art galleries and museums
“auction”	a process of buying and selling items or services by offering them up for bids, taking bids, and then selling them to the highest bidders
“auction catalog”	a publication prepared by the auction house prior to the auction date, which contains descriptive details and photographs of items available for bidding at auctions
“auction consignment agreement”	the agreement to establish the auction entrustment relationship which is entered into between us as an auction house and a consignor (or prospective seller) for consignment of an auction lot
“auction house”	an entity which organizes auctions
“auction lot(s)”	item(s) offered for bid in an auction
“auction price”	price that generally includes the hammer price and the buyer’s commission fee
“auction reserve price”	the lowest price that a consignor is willing to offer for selling the auction lot, and if during the course of auction, the highest bidding price does not reach or exceed the auction reserve price, the auction fails to conclude

## GLOSSARY OF TECHNICAL TERMS

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“auction revenue”	in connection with any concluded auction transaction for artworks, the total amount of buyer’s commission and seller’s commission generated from our art auctions and relevant fees for services we provided in relation to the auction catalog, insurance and other auction related services
“Auction Rules”	auction rules prescribed by our Group for our art auctions
“auctioneer”	host of an auction
“bidding deposit”	deposit payable by a bidder (or prospective buyer) prior to the commencement of an auction in order to enroll and participate in such auction
“buyer’s commission”	commission we charge a buyer for concluded auction sale transaction in our art auctions
“External Artwork Appraisal Consultants”	external consultants who provide opinions on the authentication and/or valuation of artworks for our art auction as and when appropriate. Please refer to “Business — Internal Control and Risk Management — Working team and experts for authentication and valuation of artworks” in this document for their background and qualification
“ERP”	enterprise resource planning, systems that integrate internal and external management information across an entire organization, embracing finance and accounting, manufacturing, sales and service and customer relationship management, and automate these activities with an integrated software application
“Facebook”	a social networking website that allows registered users to create profiles, upload photos and video, and send messages
“hammer price”	the price ascertained by way of the auctioneer dropping the hammer or in any other reasonable manner with the intention of confirming the winning bid for a lot at auction and the sale price. All previous bid offers in the same auction will be void
“HNWI”	High-Net-Worth-Individuals, referring to individuals with more than US\$1.0 million financial assets

## GLOSSARY OF TECHNICAL TERMS

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“Internal Artwork Appraisal Team”	internal team members who conduct authentication and valuation of artworks for our art auctions. Please refer to “Business — Internal Control and Risk Management — Working team and experts for authentication and valuation of artworks” in this document for the background and qualification of the team members
“IT”	information technology
“preview exhibition(s)”	a public exhibition held by the auction house prior to the auction
“private sale”	for purpose of this document, private sale refers to a mode of sale where we function as an agent by matching prospective buyer and seller for sales of artwork. In any event, private sale is not conducted through our art auctions
“seller’s commission”	commission we charge a seller for concluded auction sale transaction in our art auctions
“sourcing”	the process which involves the auction house selecting articles for auctions by way of regular sourcing and directional sourcing events
“Spring Auction(s)”, Autumn Auction(s)”	these are the two largest auctions each year in terms of scale and quality of items organized by our Group as well as by other industry players, each of which generally consists of multiple auction sessions. The Spring Auction is usually held between February and May of each calendar year while the Autumn Auction is usually held between September and November of each calendar year
“WeChat”	WeChat, also known as Weixin (微信), which is a mobile text and voice messaging communication service developed by Tencent in China. It provides multimedia communication with text messaging, location sharing and contact information exchange
“Weibo”	Weibo, also known as Sina Weibo, which is a social networking and microblogging service based in China. It was launched in 2009 and is the largest Internet portal in China

## FORWARD-LOOKING STATEMENTS

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This document contains forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management that are, by their nature, subject to significant risks, uncertainties and assumptions, including the other risk factors as described in this document. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and plans for the development of existing and new businesses, our ability to implement such strategies and plans and the expected timetable of such implementation;
- our financial condition and performance;
- our dividend policy;
- our ability to reduce costs;
- the regulatory environment, as well as the general industry outlook, for the industry and market in which we operate;
- our expectations with respect to our ability to acquire and maintain regulatory licenses or permits;
- capital market development;
- certain statement in the sections headed “Risk Factors”, “Industry Overview,” “Regulatory Overview”, “Business”, “Financial Information”, “Relationship with Our Controlling Shareholder” and “Future Plans and Use of [REDACTED]” with respect to trends in interest rates, foreign exchange rates, prices, volumes, operations, margins, risk management and overall market trends;
- further developments in, and competitive environment for, the industry in which we operate; and
- the general economic trend and outlook in the markets in which we operate.

## FORWARD-LOOKING STATEMENTS

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The words "aim," "anticipate," "believe," "contemplate," "continue," "could," "estimate," "expect," "going forward," "intend," "may," "ought to," "might," "plan," "potential," "predict," "project," "schedule," "seek," "should," "target," "will," "would" and the negatives forms of these terms, as well as similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. Hence, should one or more of these risks or uncertainties materialize, or should underlying assumptions prove to be incorrect, our business, financial condition and results of operation may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. Accordingly, such statements are not a guarantee of future performance, and you should not place undue reliance on such forward-looking information. We undertake no obligation to publicly update or revise any forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except as required by applicable laws, rules and regulations. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set out in this section.

In this document, statements of or references to our intentions or those of our Directors are made as of the date of this document. Any such information may change in light of future developments.



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## RISK FACTORS

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*Potential [REDACTED] should consider carefully all the information set out in this document and, in particular, should consider and evaluate the following risks associated with an [REDACTED] in our Company before making any [REDACTED] decision in relation to our Company.*

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

#### Risks Relating to Our Business

***The demand for artworks is unpredictable and may materially and adversely affect our ability to sell artworks, our business, financial condition and results of operations.***

The demand for artworks is influenced by numerous factors, many of which are beyond our control. These factors include but not are limited to economic and political condition, changing trends in the art market as to which collecting category, artist and age of artwork are most sought after, the quality and quantity of artworks that are available for auction sales, as well as the collecting preference and financial resource of individual collector. For example, a decrease in market demand may lead to fewer art auction sales to be completed and reduced hammer price, which could in turn result in lower commission income earned by us. Consequentially, our cash flow may be negatively impacted, which may further materially and adversely affect our results of operations.

***We are not able to predict the future trend of the art auction market, the availability and popularity of artworks, which may materially and adversely affect our operations, thus the financial results of operations.***

Our revenue increased steadily during the Track Record Period. We perceive that the continuous growth of our revenue was mainly because of our ability to source premium and high-quality artworks and high reception in sufficient quantity at our art auctions, as evidenced by the increase in the total number of auction lots offered and sold as well as the increase in the aggregate hammer price during the Track Record Period. We will continue our efforts to source premium artworks in order to achieve continual growth. However, we cannot guarantee the constant availability of premium and high-quality artworks in sufficient quantity for our art auctions nor can we assure the rapid development and prosperity of the Chinese and Japanese art auction market in the foreseeable future.

The market demand, value and conditions for artworks as well as the future development in the art auction market are relatively unpredictable and influenced by various factors. These uncontrollable factors include the overall economic and political environment, changing trends in the art market (such as preferences of collectors, popularity of particular types of artworks or popularity of artworks of particular artists), the overall artwork market activity, popularity and availability of good quality and high-value artworks, and willingness of potential market-players to purchase or sell particular artworks.

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## RISK FACTORS

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In addition, the availability of sufficient number of premium and high-quality artworks with high reception may not be guaranteed. For example, in our 2017 Autumn Auction in Hong Kong, a premium Chinese painting received overwhelming response by bidders as evidenced by its high hammer price. The sale of this piece of artwork by us made significant contribution to our revenue under the art auction and related business segment for the year ended March 31, 2018. However, we cannot guarantee that we will be able to source artworks with high reception and high popularity in our auctions going forward. A decrease in availability and/or popularity of certain artworks may attract fewer bidders to our art auctions, and/or the unavailability of high value, good quality artworks in sufficient quantity may result in fewer auction transactions to be completed, hence reducing the commission income to be earned by us, our art auction business, the reputation of our Company and our profitability may also be adversely affected.

***Our business could be adversely affected if we are unable to develop or maintain our existing customer base, in particular, our relationship with customers and business partners. Any interruption in such relationship could have a material and adverse effect on our business.***

We believe that our revenue, profitability, and operating cash flow are affected by our ability to develop and maintain relationships with our customers and business partners. Over the years, we are committed to building a broad base of overseas and domestic customers. We intend to continue maintaining and furthering our customer base through our network with global reach. However, if we are unsuccessful in maintaining and developing our relationships with our customers and business partners, our business could be materially and adversely affected. We rely on certain high-end sellers and collectors to supply us with high-profile artworks. If such customers and business partners decide not to maintain the existing cooperation relationship with us or fail to reach consensus in negotiations with us, in such circumstances, our profitability, results of operations and financial condition could be materially and adversely affected.

***Our business is subject to risks relating to the authentication, valuation of artworks and relevant prices and management’s determination of artworks, which rely on the subjective judgment of our management and experts.***

We have our Internal Artwork Appraisal Team which is comprised of experts in different categories of artworks to conduct authentication and valuation for artworks. We would also consult external consultants in respective fields in authenticating and valuating artworks on certain occasions. We have implemented strict internal control procedures which allow our staff to further ascertain the auction reserve price (if any) or the estimated price range of artworks, where applicable. The authentication, valuation and determination of relevant prices of artworks rely on the subjective judgment of our management and experts. Please see the section headed “Business — Internal Control and Risk Management — Authentication and Valuation of Artworks” of this document.

In spite of the above, the techniques of counterfeiting are evolving continuously and are becoming increasingly difficult to distinguish from the authentic artworks. There is no assurance that during the course of our operations, complaints or disputes in relation to the authenticity of artworks, particularly master pieces of well-known artists, would not occur. If we fail to resolve any dispute in relation to the authenticity and value of artworks, such dispute may have a material and adverse effect on our brand image and reputation which could materially and adversely impinge our business, financial condition and results of operations.

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## RISK FACTORS

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***Our business is exposed to concentration risks to certain types of artworks in our business.***

Our art auction lots mainly include Chinese paintings and calligraphies, Chinese antiques, Japanese and Chinese tea wares and others. During the Track Record Period, revenue deriving from Chinese painting and calligraphies and Chinese antiques contributed 85.1%, 90.2% and 87.3% to our total revenue generated from our art auction and related business, respectively, among which Chinese paintings and calligraphies accounted for 51.6%, 63.2% and 61.4% and Chinese antiques accounted for 33.5%, 27.0% and 25.9% to our total revenue generated from our art auction and related business, respectively. During the Track Record Period and in the foreseeable future, the majority of our business operations have been and are expected to be related to such types of artworks. Any unfavorable change in the future trend and market condition of any such artworks could have a material and adverse effect on our business, financial condition and results of operations.

***Our results of business operations could be adversely affected by customer’s default in making payment in due course.***

Under our auction and related business segment, we generally collect auction receivables after auction. We normally recognize commission upon the completion of the auction sale as evidenced by the fall of auctioneer’s hammer and when the collectability of the related receivables is reasonably assured. Please see the section headed “Financial Information — Basis of Presentation — Revenue Recognition” for more details. As a result, our business, financial condition and results of operations could be materially and adversely affected if the buyer fails to make payment after conclusion of the sales in due course. Further, since we make payment to sellers after settlement of auction price with buyers, any delay or failure by buyers to settle auction prices would postpone our payment to sellers thereby affecting our relationships with sellers.

We have adopted and implemented internal control practices to monitor the settlement of auction receivables, and we actively review the outstanding fees and liaise with relevant parties to speed up the collection process. We normally require buyers of artworks to settle the entire purchase price of the artworks within seven days after the date of the completion of auction sales. However, we cannot guarantee that all buyers are able to settle the entire purchase price of the artworks within the specified time period or fulfill payment in accordance with the contractual terms, or at all. Losses would therefore be incurred in case of delays or failures in settlement. .

***We are exposed to losses in the event of title claims arising from sale of artworks.***

Before accepting any artwork consigned to us for auction, we would conduct a series of due diligence checks on the source and ownership of (and, where applicable, chain of title to) the relevant artworks in accordance with our internal control and risk management procedures. Please see the section headed “Business — Internal Control and Risk Management” for details of our internal control and risk management policy, in particular on the area of artwork authentication and valuation.

We require consignor of artwork to give representations and warranties as to the ownership and legality of source, and such representations and warranties are set out as an express term in the auction consignment agreement or the conditions of sale. Our policy does not allow us to accept, or requests us to immediately return to the sellers any artwork, which we know, is subject to title dispute or legal impediments. However, any title claim against us may nevertheless exposes us to reputational risks and diverts our management attention and resources from existing business, hence adversely affecting our business, financial condition and results of operations.

## RISK FACTORS

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***Artworks consigned to us could be subject to damage or theft, which could have a material and adverse effect in our business and brand reputation.***

We normally keep artworks consigned for sale or artworks we purchased as a principal in storage rooms. In addition, prior to auctions usually scheduled in Spring and Autumn each year, we organize preview exhibitions in Hong Kong, Japan and other cities. As different types of artworks may require special treatment with regards to their storage, transportation and exhibition environment, including temperature, humidity and light, we cannot assure that our security and inventory management measures will be adequate to prevent theft of or damages to artworks. Furthermore, even though we have purchased insurance policies to protect us from risks and losses arising from damage or theft, the insurance coverage may not be sufficient to cover the loss suffered. During the Track Record Period, we did not encounter any damage or theft for items kept in our store rooms. However, the occurrence of any of the above circumstances may render us to claims and litigation. Any such claim may adversely affect our reputation, customer relationship and ability to source artworks for auction in the future. As a result, our business, financial condition and results of operations could be materially and adversely affected.

***Insurance coverage for artworks may not be sufficient, exposing us to losses for artworks in our possession.***

We maintain insurance coverage for publicly exhibited artworks in Hong Kong and Japan. It is possible that we will not be able to renew and continue our existing insurance policies due to the exclusiveness and rarity of artworks, which may require different or specific maintenance condition. As a result, we may need to search for suitable insurance policy in the market again, which may not be able to protect us from losses arising from damages or losses of relevant artworks. We may also need to narrow our scope of insurance coverage and premium if the insurance premium becomes immoderately high in the future. Nonetheless, the development of the insurance industry may fall behind the rapid development of the art industry, which hampers our ability to obtain sufficient insurance policies. In that event, we may suffer from materialization of these risks, which could lead to significant increase of capital expenditures and expenses as well as liabilities, thereby upsetting our business and operating results.

***Our failure to maintain or increase our marketing activities and capabilities could adversely affect our market share and our reputation, business, financial condition and results of operations.***

We intend to deepen the market penetration and expand our geographical coverage through efficient sales and marketing efforts and to conduct marketing and promotion activities. However, there is no assurance that our current and planned spending on marketing activities will be adequate to support our growth strategies. Any factors adversely affecting our ability to maintain or increase our marketing activities and capabilities will have an adverse effect on the market share of our services and products, brand names and reputation, which may result in decreased demand for our services and products and may adversely affect our business, financial condition and results of operations.

***Our growth and development in our business may be adversely affected by competition.***

In Hong Kong, we are in competition with leading auction houses with the capability of sourcing, authenticating and valuating artworks whilst in Japan, we are the leading auction house competing with a few local players. Some of our competitors may have strategic advantages over us in terms of their financial resources, network coverage, customer base, source of artworks and brand recognition. Competition may cause a decrease in our auction revenue and an increase in the cost of sourcing of artworks and in the recruitment of expertise in the auction industry.

## RISK FACTORS

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Our competitive strengths in comparison with our competitors depends on various factors, for example, our abilities to maintain a leading market position in the Chinese art auction market in Hong Kong and Japan, to secure a supply of premium artwork, to establish a brand name with strong reputation, to maintain good and long term relationship with customers, to retain experienced professional and management team, and to operate our business segments. If we cannot successfully compete with our competitors, we may lose our leading market position and our results of operations may be materially and adversely affected.

***Our business may be adversely affected if we are unable to retain and hire senior management, expert and qualified employees.***

Our success has been largely attributable to a group of senior management, internal authentication and valuation experts. The authentication and valuation experts have been accumulating experience through years of practice in order to provide professional and reliable advice to our Company. For biographies of our Internal Artwork Appraisal Team, please see sections headed “Business — Internal Control and Risk Management — Authentication and Valuation of Artworks — Working team and experts for authentication and valuation of artworks” and “Directors and Senior Management” in this document. In addition, our growth depends significantly on our ability to attract, train and retain qualified employees, including IT and accounting, industry specialists and risk management personnel. Failure to recruit or retain qualified employees may materially upset our business prospect and development.

There is no assurance, however, that any or all of our senior management and our employee will continue their employment with us and that we are able to engage and continue retaining appropriate and sophisticated experts. If any of our senior management, employee and expert is unable or unwilling to continue his or her service with us, we may not be able to find a suitable replacement in a timely and cost efficient manner, or at all. The loss of the services of any of them or the failure to find a suitable and timely replacement might cause disruption to our business and may have a detrimental impact upon our ability to manage or operate our business effectively.

***Any impairment losses realized by us for our inventories in case of excessive inventories could have a material and adverse effect on our business, results of operations and financial condition.***

Our total value of inventories as of March 31, 2016, 2017 and 2018 were approximately HK\$21.4 million, HK\$13.8 million and HK\$23.1 million, respectively. Although we have not made impairment loss on our inventories during the Track Record Period, we cannot assure you that this will not happen in the future as we are exposed to increased inventory risks as a result of a variety of factors beyond our control, including, changing artwork market trends, material fluctuations or abnormalities in the demand of our artworks we purchase as principal or customers’ tastes and preferences of the artworks in the market. Further, we cannot assure you that our inventory management measures will be implemented effectively so that we will not have significant levels of excessive inventories. In the event that there is a sudden decrease in the market demand for our artwork under artwork sales segment or in the event that our artworks do not successfully meet customer preference, we may experience slow movement of our inventories. We may not be able to sell our inventories swiftly, and may face the risk of inventory obsolescence. The slow movement of our inventories may in turn lead to an increase in our inventory level and thus an increase in our inventory carrying costs or provision for impairment of inventory.

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## RISK FACTORS

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*There is no assurance that we will fully recover consignee advances, which may have a material and adverse effect on our business, financial condition and results of operations.*

According to auction consignment agreement, we have no obligation to make payment to the consignee prior to the receipt by us of the full purchase price of the artwork. However, in order to attract appealing artworks and retain premium customer, upon request, we may provide certain consignees with consignee advances carrying interest accruing on such consignee advance at the rate of 1%, the amount of which is generally determined through negotiation between us and the consignee. In case that we fail to sell the consigned artwork at our auction, we will return the artwork to the consignee after obtaining full repayment of the consignee advances with accrued interest. As of March 31, 2016, 2017 and 2018, the aggregate amount of consignee advances amounted to approximately HK\$7.6 million, Nil and HK\$15.2 million, respectively.

During the Track Record Period and up to the Latest Practicable Date, we have not encountered any material defaults from consignees in the repayment of consignee advances. During the Track Record Period, we have not made any provisions for consignee advances. There is no assurance that we will always be able to recover consignee advances in its full amount, or at all. As a result, our business, financial condition and results of operations could be materially and adversely affected if material defaults from consignees in the repayment of consignee advances occurs.

### **Risks Relating to our Overall Business and Industry**

*The uncertainties in the global economy may have adverse effect on our business.*

Any unfavorable global economic condition such as the trade war between China and the United States, and the uncertainties in financial markets over the decision by the United Kingdom to exit the European Union, may have a detrimental impact on artwork supply and demand, and in turn have a significant adverse impact on our business, financial condition and results of operations. In particular, our operations are more exposed to risks associated with fluctuation of regional economic, political and financial environment in jurisdictions such as Japan, Hong Kong, China and Asia Pacific countries because most of our customers are located in such jurisdictions.

Notwithstanding that artworks are less sensitive to the economic downturn comparing to the luxury goods, at times of economic downturn and political instability, potential buyers and sellers may lack incentive to purchase and sell artworks. As a result, our auction commission income generated by auction sales could decrease.



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## RISK FACTORS

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***Our past results are not indicative of our future performances, and fluctuations in market demand artworks may cause significant turbulence in our results of operations.***

A number of factors, many of which are out of our control, affects market demand for our artworks. These factors, namely, overall economic and political environment, changing trend in the art market as to which category, age and style of artworks as well as artists are most sought after, collecting preference of individual collectors, and willingness of potential buyers or sellers to purchase or sell particular artworks, are hardly forecastable however could lead to a significant fluctuation in our operations. There is no assurance that similar circumstances will occur in the future again. Please also see the section headed “Risk Factors — Our results of business operations could be adversely affected by customer’s default in making payment in due course.”. We may not be able to sustain the rate of our business growth due to increasing market saturation, competition, regulation and other factors. Therefore, our past results should not be relied on as an indication to our future performance.

***Our results of business operations are subject to seasonal fluctuations.***

We have historically experienced and are expected to face slight seasonal fluctuations in our business. In line with the auction industry practice, we organize two principal auction sales each year in Hong Kong and Japan, namely, the Spring Auction and the Autumn Auction. In Japan, the Spring Auction takes place between February and March each year while the Autumn Auction takes place in September each year. In Hong Kong, the Spring Auction takes place in May each year while the Autumn Auction takes place in November each year. As our Group usually offers larger number of auction lots and puts artworks of higher value to our Autumn Auction, during the Track Record Period, our auction income generated from sales of artworks in the Autumn Auction accounted for a relatively larger portion of our annual auction income compared with that of sales of artworks in the Spring Auction. As our revenue may experience slight fluctuation seasonally, comparisons of sales and operating results between different periods in a single financial year for our business, or between the same periods in different financial years, may not necessarily be meaningful, and should not be relied on as indicators of our future performance. The slight seasonal fluctuation in our revenue requires us to control our operating capital thoroughly to provide our business with sufficient cash flow for operations. Failure to manage seasonality in our business may cause detrimental effects to our revenue and financial condition.

***Our business expansion plans and development strategies may not be successful.***

We intend to expand our operations in existing or new areas through exploring the contemporary artwork and jewelry market, which we see rooms for development. In addition, as part of our effort to expand in the global artwork auction markets, we plan to set up a new representative office in each of Beijing and California. We intend to utilize [REDACTED] from the [REDACTED] primarily in the expansion of our business operations. For details, please see the sections headed “Business — Strategies” and “Future Plans and Use of [REDACTED]”.

Our expansion plans, in particular, in connection with the development of the contemporary artwork and jewelry market and the setup of representative offices in Beijing and California, involve significant risks and uncertainties, including failure in retaining and hiring experts in the contemporary artwork and jewelry industry, preferences of customers in purchasing contemporary artworks and jewelries, as well as failure in sourcing premium or sufficient contemporary artworks and jewelries. Further, the intended pioneering establishment of contemporary artwork and jewelry department in reaching out to the contemporary artwork and jewelry market is innovative and new to us and may not receive market support. We may therefore incur significant costs in the expansion of our business.

## RISK FACTORS

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Further, we may incur significant costs in the expansion of business. Any failure to implement our expansion plans may materially and adversely affect our business prospect. If we are unable to implement our development strategies and business expansion plans or unable to achieve our goals by such strategies and plans, our business, financial performance and prospect may be materially and adversely affected.

***A failure in our IT systems could disrupt our business operations, result in leakage of confidential information, damage our reputation and cause losses.***

Our business operations rely heavily on proper operation of IT systems. We depend on an electronic artworks database to keep track of historical trading prices of extensive amount and variety of artworks and gain access to information on a sizeable number of buyers, sellers and collectors. In addition, we deliver electronic auction catalogs timely to both potential and existing buyers by way of electronic mail. Our auction catalogs are also available in digital form, which can be viewed on our official website. Please see the section headed “Business — Information Technology”.

We have regulated our IT system by regular inspection and maintenance of our internet services to ensure non-disturbance, anti-virus protection and safety measures on storage of information. However, in case of human error, natural disaster, power failure, computer virus, spam attack, illegal invasion and other similar interference where our IT system is not sufficiently and effectively equipped to provide protection, customer’s information and other confidential information processed, stored in, and transmitted through our IT systems and networks may be subject to leakage or damage. It may cause interruptions and malfunctions in our operations or interfere with the customers’ use of our website or online services. Any leakage of information of customers could harm our customer relationship and we may face litigation or claim from our customer against leakage of confidential information and our competitiveness, financial condition and reputation may be materially and adversely affected.

***Our business prospect may be materially and adversely affected if our risk management and internal control systems (including anti-money laundering and anti-corruption) are not adequate and effective in controlling and limiting our risk exposure.***

Our business is subject to different level of risks. For instance, we face risk of default or delay of payment by buyers, risk of authenticity, valuation, legality of source and ownership of artworks. We have established and implemented internal control policies and risk management systems with the aims to identify, evaluate and manage various risks inherent to different aspects of our business operations. Certain areas within our risk management and internal control systems may require constant monitoring, maintenance and continual improvements by our senior management and staff. For details, please see the section headed “Business — Internal Control and Risk Management”.

Our business, financial condition and prospect may be materially and adversely affected if our efforts to maintain these risk management systems are proved to be ineffective or inadequate. At the outset, our internal control policies may contain inherent limitations caused by misjudgment. We cannot assure you that our risk management systems and internal control policies are sufficiently effective in identifying and mitigating all types of risks in connection with our business, including unidentified or unexpected risks. Some of our risk management and control methods are based upon historical market practice and past events. As a result, we may not be able to effectively identify or estimate future risk exposures, which may be significantly greater than those indicated by measures based on historical data. Furthermore, if we expand our business operation, we may not be in a position to adequately identify and predict future risk exposures associated with such new operation.



## RISK FACTORS

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Further, money laundering or corruption by our employees or third parties may be difficult to be detected and prevented. We have designed internal control policies and risk management systems to monitor overall compliance and prevent money laundering activities. However, we may fail to identify non-compliance or suspicious transactions in a timely manner or at all and it is not assured that our internal control policies and risk management systems will effectively prevent the occurrence of money laundering and corruption. As a result, we may suffer from unfavorable impact on our reputation, operation, financial condition, future development and relationships with supervisory organizations. In more serious cases, these may bring about suspension of our business.

***Misconduct or illegal activities of employees, representatives, agents and suppliers could have a material and adverse effect on our business and reputation.***

Misconduct or illegal activities of employees, representatives, agents and suppliers could result in violations of law by us, regulatory sanctions, mandatory penalties or financial losses. Such misconduct could include a binding transaction that exceeds authorized limits, illegal disclosure of confidential information, providing fraudulent information, engaging in unauthorized trading, money laundering and bribery that are to the detriment of our Company, or otherwise not complying with our internal control measures. During the Track Record Period and up to the Latest Practicable Date, we have not been subject to any legal or administrative penalty for such incident of employee misconduct or illegal activity. However, we cannot assure you that it will always be possible to detect fraud or other misconduct of employees, representatives, agents or suppliers. The precautions we take to detect and prevent such misconduct or illegal activities may not be effective. We could also suffer from negative publicity, reputational damage or litigation losses that could arise from misconduct of our employees, which may have a material and adverse effect on our business and reputation.

***Failure to protect our own and third party intellectual property rights could materially and adversely affect our business.***

Our intellectual property rights mainly consist of two registered domain names, namely, “chuo-action.co.jp” in Japan and “www.chuo-auction.com.hk” in Hong Kong. In addition, we have one registered trademark in Hong Kong which is material to our business, including our Company’s logo. Any action that damages our brand name may adversely affect our business, financial condition, reputation, results of operations and prospect.

We also need to offer legal protection for intellectual property rights of third parties, in the case of consigned auction items. We have implemented necessary management guidelines in protecting our and third parties’ intellectual property rights. However, we cannot assure you that such mechanisms can adequately and effectively prevent infringers from imitating and copying our intellectual properties. Any risk of infringement would contribute to a material and adverse effect on our business and reputation.

## RISK FACTORS

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***Failure to protect private or sensitive information of customers could have material and adverse effect on our business.***

We are required to comply with applicable laws and regulations in jurisdictions where we operate our business with respect to the protection of confidential and sensitive information. Any leakage of such information could harm our relationships with customers. If we fail to effectively comply with applicable laws and regulations, the relevant government agencies may impose sanctions or other penalties on us. We could also be liable for economic loss suffered by our customers because of our failure to protect their confidential and sensitive information. As a result, our business, financial condition and results of operations could be materially and adversely affected.

***We may be subject to litigations, allegations, complaints and investigations, and our reputation, corporate image and operating results could be adversely affected if such results are adverse to our interests.***

Our business is subject to risks of litigation, allegation, complaint and investigation, in particular in our operations relating to consignment, authentication and transaction of artworks. Customers may commence litigations or arbitration proceedings against us and we may be subject to inquiries, investigations, litigations and proceedings by governmental agencies. From time to time, we may also be involved in disputes, complaints or litigations with third-party suppliers or other counter parties in our normal business operations. Actions brought against us may result in settlements, injunctions, fines, penalties or other adverse results that could harm our reputation and corporate image. A significant judgment, arbitration award or regulatory action against us arising from adverse adjudication in proceedings against our Directors and senior management could have material and adverse impact to our business, financial condition, results of operations and prospect. In addition, if we fail to solve any dispute, litigation, complaint or investigation in a timely manner, our corporate image and reputation may be adversely affected.

***Our business, financial condition, results of business operations and prospect and the value of your [REDACTED] may be materially and adversely affected as a result of negative media coverage relating to us, our personnel, our Controlling Shareholder or the auction industry.***

Our auction business continues to be covered by various media. We may be subject to and associated with negative media coverage, including those on the internet, with respect to our corporate affairs, disputes with customers or third-party suppliers and alleged misconduct of our personnel, our Controlling Shareholder or other industry peers. Despite of our well-designed internal control policies and risk management systems in identifying, evaluating and managing different kind of risks inherent to our business operations as well as governing our daily operation, there may still be negative media coverage concerning our Company, employees or Controlling Shareholder. No matter these negative media coverage are accurate or applicable to us or not, there may have a material adverse effect on our reputation and may consequently undermine customers' or investors' confidence. As a result, our business, financial condition, results of operations, prospect and the value of your [REDACTED] may be materially and adversely affected.

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## RISK FACTORS

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*Any future occurrence of force majeure events, natural disasters, outbreaks of pandemics or terrorist attacks may have a material and adverse effect on our business.*

Our business could be materially and adversely affected by natural disasters, such as earthquakes, floods, landslides, outbreaks of health epidemics, for example avian influenza, swine influenza and severe acute respiratory syndrome, or SARS, and Influenza A virus, such as H5N1 subtype and H7N9 subtype flu viruses, as well as terrorist attacks, other acts of violence or war or social instability in the region in which we operate or those generally affecting Japan and Hong Kong. Any recurrence of avian influenza, severe acute respiratory syndrome or other outbreak of epidemics could have a material and adverse effect on our business. Floods, landslides and particularly earthquake and volcanic eruption which have frequently occurred in Japan, could create public fear or restrictions in traffic and transportation. War, terrorist activity and social unrest could affect economic development and our business operability. Any force majeure event could lead to isolation or closure of parts of our representative offices and facilities; senior management and employees suffering from severe diseases and the overall slowdown of economy could have a material and adverse effect on our business, results of operations and financial condition.

*Our failure to distinguish the Restricted Cultural Property recognized by the Convention may significantly affect our business.*

Being one of the state parties (each a “**State Party**” and collectively the “**State Parties**”) to the Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property (the “**Convention**”), China and Japan undertake to set up within their territories one or more national services for the protection of cultural property (the “**Restricted Cultural Property**”) against illicit import, export and transfer of ownership. For instance, China and Japan undertake to take necessary measures, in consistent with the national legislation, to prevent museums and similar institutions within their territories from acquiring cultural property originating in another State Party which has been illegally exported after entry into force of the Convention, in the States concerned.

Under the relevant laws and regulations in China, if any illicit import, export and transfer of the Restricted Cultural Property of China is put on auction in any State Party, the Chinese government may issue a notice to the relevant State Party and request such State Party to send a notice to the relevant auction house to put on hold of the auction of that Restricted Cultural Property from China. Similarly, under the relevant laws and regulations in Japan, any illicit import, export and transfer of the Restricted Cultural Property is required to obtain prior approval from the relevant Japanese authority and those who import, export and transfer the Restricted Cultural Property without obtaining such approval will be subject to imprisonment or a fine.

We have implemented internal control policies and risk management systems in distinguishing the Restricted Cultural Property. For details, please see the section headed “Business — Internal Control and Risk Management”. We have not received any notice from any government authorities in Hong Kong during the Track Record Period requesting us to call off any auction held in Hong Kong for any artworks due to the fact that such artwork was considered as Restricted Cultural Property. In addition, there are no regulatory, legal or governmental actions or proceedings (including without limitation litigation, administrative proceedings and governmental investigations or inquiries) against the subsidiary in Japan. However, we cannot assure you that our risk management systems and internal control policies are sufficiently effective in identifying all Restricted Cultural Property. Our failure to effectively identify all Restricted Cultural Property may result in a material and adverse effect on our business and reputation.

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## RISK FACTORS

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### RISKS RELATING TO HONG KONG

*Political and economic risks associated with conducting business in Hong Kong.*

Half of our business operations are conducted in Hong Kong, and a significant portion of our revenue is derived from our auctions in Hong Kong. Accordingly, our business, financial condition and results of operations are affected significantly by economic, political and legal developments in Hong Kong. Hong Kong is a special administrative region of the PRC and the basic policies of the PRC regarding Hong Kong are reflected in the Basic Law (基本法), Hong Kong’s constitutional document, which provides Hong Kong with a high degree of autonomy and executive, legislative and independent judicial powers, including that of final adjudication under the principle of “one country, two systems”. However, there is no assurance that there will not be any changes in the economic, political and legal environment in Hong Kong in the future. Our business, financial condition and results of operations may be affected should there be any material adverse change in the stability and development of the economic, political and legal environment of Hong Kong.

*As we generate a significant portion of our revenue in Hong Kong, we are susceptible to developments in Hong Kong.*

Revenue generated from Hong Kong amounted to approximately HK\$38.6 million, HK\$63.1 million and HK\$89.8 million for the years ended March 31, 2016, 2017 and 2018, respectively, representing 28.0%, 42.6% and 51.8% of our total revenue for the same periods, respectively. We anticipate that our business in Hong Kong will continue to contribute increasingly significantly to our results of operations following the completion of the [REDACTED]. If Hong Kong experiences any adverse economic conditions due to events beyond our control, such as local economic downturn, natural disasters, contagious disease outbreaks or terrorist attacks, or if the local authorities adopt regulations that place additional restrictions or burdens on us or on our industry in general, our business, financial condition and results of operations may be materially and adversely affected. In addition, we may have difficulties expanding into new markets. Therefore, if there is any deterioration in the development in Hong Kong, our business, financial condition and results of operations may be materially and adversely affected.

### RISKS RELATING TO CONDUCTING BUSINESS IN JAPAN

A majority of our assets are located in Japan, and a majority portion of our revenue came from Japan during the Track Record Period. Therefore, our results of operations, financial position and prospect are significantly affected by risks relating to business operations in Japan.

*The economic, political and social condition, as well as governmental policies in Japan could affect our business, financial condition, results of business operations and prospect.*

Japan has a highly developed and market-oriented economy. In terms of GDP, Japan is experiencing an annual real GDP growth rate of 1.5% in 2017, compared to 1% in 2016 and 1.1% in 2015. In face of rapidly aging population and a shrinking workforce in Japan, the Japanese government has been carrying out reforms to boost wages, productivity and growth. In particular, the three arrows of monetary easing, flexible fiscal policy and structural reforms are key priorities to stimulate economic growth. However, the success of these monetary and economic measures is unwarranted. Subject to any economic reform, monetary and fiscal policy Japanese government may have adopted in the future in light of possible changes of economic condition, the benefits that we are entitled to may diminish. In addition, we are

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## RISK FACTORS

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unable to predict whether the changes in Japan's politics, economy, social condition, laws and regulations or governmental policy will have an adverse impact on our business, results of operations or financial condition in the future.

***We may be subject to changes in laws and regulations affecting the auction industry in Japan.***

According to Japanese laws and regulations, there is no particular law or regulation specifically governing the auction industry. The usual laws and regulations applicable to operating business in Japan, for instance, the Corporate Tax Law, Commercial Code and Companies Act are applicable to the running of an auction business in Japan. However, there can be no assurance that the laws and regulations regarding the auction industry in Japan will continue in future. Any possible change in laws and regulations in Japan affecting the auction industry may significantly affect our business, results of operations or financial condition in the future.

***We may no longer be able to enjoy the tax preferential treatment and other favorable treatment from the Japanese government in the future, which may cause adverse effect to our business.***

As of the Latest Practicable Date, some of our costs were entitled to preferential tax treatment or tax exemption in Japan. There is no assurance that we could continue to be granted to such tax exemption in the future due to changes in tax policies to be adopted by the Japanese government authorities. To the extent that there is any change in, or withdrawal of, any preferential tax treatment applicable to us, or increase in the effective tax rate, our tax liability would increase accordingly. The occurrence of these changes may be detrimental to our business, results of operations and financial condition.

***The potential increase in consumption tax in Japan may affect our Company's financial condition, results of business operations and business.***

The Japanese government reviews tax policy annually as part of its budgetary process. Under The Consumption Tax Act (Act No. 108 of December 30, 1988, as amended) in Japan, the consumption tax is assessed at each stage of the manufacturing, importing, wholesale and retail process. The current consumption tax rate is 8% (6.3% imposed as national tax and 1.7% as local tax). The Japanese government announced its intention to increase the consumption tax to 10% (7.8% imposed as national tax and 2.2% as local tax) with effect from October 2019. We are unable to predict when the consumption tax will further increase in the future or at what rate. If the consumption tax is further increased, it is likely that consumer spending will be adversely affected, which in turn may decrease the demands from our customers in buying artworks, resulting in material adverse effects on our Company's financial condition, results of operations or business.

***Our Company may be subject to the corporate tax in Japan and there is no assurance that changes in the corporate tax rate in Japan will not materially and adversely affect our operating results and performance.***

Under the Corporation Tax Act, the statutory tax rate for corporate tax in Japan is currently 29.97%. The corporate tax rate in Japan on assessable profits is generally higher than the applicable tax rate in Hong Kong. The Japanese government reviews tax policy annually as part of its budgetary process. We cannot predict when the corporate tax rate will increase in the future or at what extent. Any material increase in the corporate tax rate in Japan may have adverse impacts to our Company's financial condition, results of operations or business.

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## RISK FACTORS

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*We may fail to satisfy the requirements for dividend distribution deduction and consequently incur higher tax costs in Japan.*

According to Japanese law, TCA Japan may only pay dividends out of its distributable profits. Distributable profits (as determined either by Japanese GAAP or IFRS, whichever is lower) refer to the net profits in a certain period, less any recovery of cumulative losses and allocations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profit to ensure us that we make dividend distributions to our Shareholders in the future. Any undistributed profit of the preceding year, which has not been distributed, will be retained and available for distribution in subsequent years.

Moreover, as distributable profits are calculated differently under Japanese GAAP than under IFRS, our operating subsidiaries may not have distributable profits as determined under Japanese GAAP, even if they have profits as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries for us to pay dividends. Any failure by our operating subsidiaries to pay dividends to us could have a negative impact on our cash flows and our ability to make dividend distribution to our Shareholders in the future, including those periods for which our financial statements indicate that our operations have been profitable.

### **RISKS RELATING TO [REDACTED] AND OUR SHARES AND RELATING TO STATEMENTS MADE IN THIS DOCUMENT**

*There may be potential conflict of interests between the Controlling Shareholder and other minority Shareholders.*

Immediately following the [REDACTED] and the [REDACTED], our Controlling Shareholder, Mr. Ando, will beneficially own an aggregate of approximately [REDACTED] of the Shares in issue (without taking into account Shares, if any, to be allotted and issued pursuant to the exercise of the [REDACTED] or any option that may be granted pursuant to the Share Option Scheme). The interests of the Controlling Shareholder may differ from the interests of the other Shareholders. There is no assurance that the Controlling Shareholder will act in our best interests or that of the minority Shareholders. If there is any conflict of interest between the Controlling Shareholder and the minority Shareholders, the Controlling Shareholder may have power to prevent us from proceeding with any proposed transaction at the general meeting, which may be unfavorable to us and other Shareholders, regardless of the underlying reasons.

*[REDACTED] will experience dilution as a result of additional equity fund raising.*

After [REDACTED], we may issue additional Shares to raise additional funds to finance our business expansion. Such fund-raising activities may be made through issue of new equity or equity-linked [REDACTED] of our Company, which are not made on a pro rata basis to existing Shareholders. In such event, the percentage ownership of those existing Shareholders may be reduced, and they may experience subsequent dilution, and/or such newly issued securities may have rights, preferences or privileges superior to those of the ordinary Shares held by existing Shareholders. Alternatively, if we meet such funding requirements by way of debt financing, such debt financing arrangements may have restrictions on us including limiting our ability or flexibility to pay dividends and requiring us to set aside certain part of our cash flows from operations to repay our debt, etc.



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## RISK FACTORS

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*There was no prior [REDACTED] for our Shares, an active [REDACTED] for our Shares may not develop and the [REDACTED] and [REDACTED] of our Shares may be volatile and affected by factors not under our control.*

Prior to the [REDACTED], there was no [REDACTED] for our Shares. The [REDACTED] for our Shares and the [REDACTED] was the result of negotiations between the [REDACTED] and us (for itself and on behalf of the [REDACTED]). Such [REDACTED] may differ significantly from the [REDACTED] for the Shares following the [REDACTED]. Further, we cannot assure you that an active [REDACTED] will develop or be maintained following completion of the [REDACTED], or that the [REDACTED] of our Shares will not decline below the [REDACTED].

The [REDACTED] and [REDACTED] of our Shares may be volatile which is affected by various factors, some of which are beyond our control, including, variations in our revenue, earnings and cash flow, our inability to compete effectively in the market, unexpected business interruptions, our inability to obtain or maintain regulatory approval for our operations, unfavorable political, economic, financial and social developments in Japan and Hong Kong and in the global economy.

*There is time lag between [REDACTED] and commencement of [REDACTED] of the Shares, and the [REDACTED] of our Shares may fall before [REDACTED] begins.*

The [REDACTED] will be determined on the [REDACTED], which is expected to be on [REDACTED]. However, [REDACTED] of the Shares on the Main Board will not commence until the [REDACTED], which is expected to be on [REDACTED]. During this period, [REDACTED] may not be able to sell or otherwise deal in the Shares. Accordingly, holders of the Shares are subject to the risk that the Shares’ price may fall before trading begins, resulted from adverse market condition or other adverse developments that may occur between the said period of time.

*Future issues, [REDACTED] or sale of Shares may adversely affect the prevailing [REDACTED] of the Shares.*

Prevailing [REDACTED] of Shares may, after [REDACTED], be negatively impacted by future issue of Shares by our Company or the disposal of Shares by our Controlling Shareholder or the perception that such issue or sale may occur. Future sales, or perceived sales, of substantial amounts of our Shares may also materially and adversely affect our ability to raise capital in the future at a time and at a [REDACTED] favorable to us. Shares held by our Controlling Shareholder are subject to certain lock-up undertakings for periods up to 12 months after the [REDACTED]. However, we cannot give any assurance that they will not dispose of Shares they may own now or in the future.

*The shareholding percentages of the existing Shareholders will be diluted following the automatic conversion of Shares in full (but not part) on the [REDACTED].*

Subsequent to the Track Record Period, our Company entered into the Pre-[REDACTED] Investments, namely the subscription of the Convertible Notes by our Pre-[REDACTED] Investors in the aggregate principal amount of approximately HK\$38.8 million which are expected to be automatically converted to Shares in full (subject however to the Pre-[REDACTED] Investors’ Opt-out Right) on the [REDACTED]. Based on the number of Shares which are expected to be in issue immediately upon [REDACTED], the Pre-[REDACTED] Investors are expected to be allotted and issued in aggregate [REDACTED] Shares upon conversion of the Convertible Notes, representing approximately [REDACTED]% of the enlarged issued Share capital immediately following the completion of the [REDACTED] (based on the number of Shares which are expected to be in issue

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## RISK FACTORS

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immediately upon [REDACTED] and assuming that the [REDACTED] is not exercised). The cost per Share will be approximately HK\$[REDACTED] per Share and represents approximately a [REDACTED]% discount to the lowest [REDACTED] of the [REDACTED] of HK\$[REDACTED] per Share and approximately a [REDACTED]% discount to the highest [REDACTED] of the [REDACTED] of HK\$[REDACTED] per Share. The Pre-[REDACTED] Investors are not entitled to any early redemption right, but are granted an Opt-out Right, exercisable in the manner set out in the respective Note Instrument. All of the [REDACTED] of the Convertible Notes were received by our Company on or before April 25, 2018. As a result, the shareholding percentages of the existing Shareholders in the Company would be diluted when the Convertible Notes are automatically converted to Shares in full on the [REDACTED] and could negatively affect the [REDACTED] of the Shares.

***Granting options under the share option scheme may affect our Company’s results of operations and dilute Shareholder’s percentage of ownership.***

We may grant share options under the Share Option Scheme in the future. The fair value of the options at the date on which they are granted with reference to the valuer’s valuation will be charged as share-based compensation, which may adversely affect our Company’s results of operations. Issue of Shares upon exercise of the share options granted under the Share Option Scheme will also increase the total number of Shares in issue after such issue, resulting in the dilution to percentage ownership of the Shareholders and the net asset value per Share.

***There can be no assurance if and when we will pay dividends in the future; dividends declared in the past may not be indicative of our dividend policy in the future.***

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distribution of dividends shall be formulated by our Board of Directors at their discretion and will be subject to our Shareholders’ approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including, but not limited to, our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under HKFRS, our Articles of Association, any applicable laws and regulations, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, regulatory restrictions and any other factors determined by our Board of Directors from time to time to be relevant to the declaration or suspension of dividend payments. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. Please see the section headed “Financial Information — Dividend and Dividend Policy” of this document for more details of our dividend policy. In addition, dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future.

***Statistics and industry information may come from various sources, which may not be reliable.***

Certain facts, statistics and data presented in this section and the sections headed “Summary”, “Industry Overview” and “Business” and elsewhere in this document relating to, in particular, the art auction industry have been derived, in part, from various publications and industry-related sources prepared by government departments or Independent Third Parties. We believe that the sources of the information are appropriate sources for such information and we have no reason to believe that such information is false or misleading in any material respect or that any fact that would render such information false or misleading has been omitted. However, neither our Company, our Directors, the Sole



## RISK FACTORS

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Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] nor any of the parties involved in the [REDACTED] have independently verified, or make any representation as to, the accuracy of such information and statistics, as such these statistics and data should not be unduly relied upon.

No person is authorized to give any information in connection with the [REDACTED] or to make any representation not contained in this document and the [REDACTED], and any information or representation not contained herein must not be relied upon as having been authorized by us, the Controlling Shareholder, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] and the [REDACTED], any of our or their respective directors, officers, agents, employees or advisors or any other party involved in the [REDACTED].

*[REDACTED] should read this entire document carefully and we strongly caution you not to place any reliance on any information (if any) contained in press article or other media regarding us and the [REDACTED] including, in particular, any financial projection, valuation or other forward looking statement.*

Prior to the publication of this document, there may be press or other media, which contains certain information referring to us and the [REDACTED] that is not set out in this document. We wish to emphasize to potential [REDACTED] that we have not authorized the disclosure of such information in any press or media, and neither the press reports, any future press report nor any repetition, elaboration or derivative work were prepared by, sourced from, or authorized by us. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is not contained in this document or is inconsistent or conflicts with the information contained in this document, we disclaim any responsibility, liability whatsoever in connection therewith or resulting therefrom. Accordingly, prospective [REDACTED] should not rely on any such information in making your decision as to whether to subscribe the [REDACTED]. You should rely only on the information contained in this document and the [REDACTED].

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## WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

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In preparation for the [REDACTED], we have sought the following waiver from strict compliance with the relevant provisions of the Listing Rules:

### WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

Rule 8.12 of the Listing Rules provides that a new applicant applying for a primary [REDACTED] on the Stock Exchange must have sufficient management presence in Hong Kong, which normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. The core business and operations of our Group are principally located, managed and conducted in both Hong Kong and Japan, and a substantial part of our Group's assets are based in Japan. As only one of our executive Directors is ordinarily based in Hong Kong, and all of the remaining executive Directors are ordinarily based in Japan, our Group does not and, in the foreseeable future, will not have sufficient management presence in Hong Kong.

In view of that, we have applied to the Stock Exchange for, and the Stock Exchange [has granted]#, a waiver from the compliance with Rule 8.12 of the Listing Rules.

In order to ensure that regular communication is effectively maintained between the Stock Exchange and our Company, we will put in place the following measures:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Stock Exchange and ensure that our Company complies with the Listing Rules at all times. The two authorized representatives are Mr. Ando, an executive Director and Mr. Yau, an executive Director and the company secretary of our Company. Mr. Ando holds valid travel documents to visit Hong Kong and Mr. Yau is a holder of Hong Kong permanent identity card and is ordinarily resident in Hong Kong. In addition, Mrs. Ando, an executive Director, is appointed as the alternate to the two authorized representatives. Each of the authorized representatives will therefore be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and e-mail (if applicable). Each of the two authorized representatives is authorized to communicate on behalf of our Company with the Stock Exchange;
- (b) each of the authorized representatives has means to contact all members of our Board promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. In order to further enhance the communication between the Stock Exchange, our authorized representatives and our Directors, and our Company will implement the policies that:
  - (i) each Director will provide his/her office phone number, mobile phone number, fax number and e-mail address to the authorized representatives and his respective alternate; and
  - (ii) in the event that a Director expects to travel and be out of office, he/she will provide the phone number of the place of his/her accommodation to the authorized representatives and his respective alternate;
- (c) all our Directors have confirmed that they possess valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and meet the Stock Exchange upon reasonable notice;

## WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

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- (d) we will appoint CMBC International Capital Limited as our compliance adviser upon [REDACTED] pursuant to Rule 3A.19 of the Listing Rules. The compliance adviser will act as the alternate channel of communication with the Stock Exchange when our authorized representatives are not available. The compliance adviser will have access at all times to the authorized representatives (including the alternative authorized representative), our Directors and senior management of our Company to ensure that it is in a position to provide prompt responses to any queries or request from the Stock Exchange in respect of our Company; and
- (e) in addition, all Directors will provide their mobile phone numbers, office numbers, fax numbers and e-mail addresses to the Stock Exchange to ensure that they will be readily contactable when necessary to deal promptly with enquiries from the Stock Exchange.

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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[REDACTED]

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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[REDACTED]

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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[REDACTED]

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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[REDACTED]



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**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**DIRECTORS**

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
<b>Executive Directors</b>		
Mr. Ando Shokei (安藤湘桂) (alias Liao Xianggui (廖湘桂))	5-16-2, Hatanodai Shinagawa-ku Tokyo-to Japan	Japanese
Mrs. Ando Eri (安藤恵理) (alias Feng Huijin (馮慧瑾))	5-16-2, Hatanodai Shinagawa-ku Tokyo-to Japan	Japanese
Mr. Katsu Bunkai (葛文海) (alias Ge Wenhai)	2-24-23, Higashiogu Arakawa-ku Tokyo-to Japan	Japanese
Mr. Sun Hongyue (孫鴻月)	501, JM Building 15-5, Hakozaicho Nihonbashi Chuo-ku Tokyo, 103-0015 Japan	Chinese
Mr. Yau Chung Hang (邱仲珩)	Flat F, 49/F Block 7, Central Park Towers II Tin Shui Wai New Territories Hong Kong	Chinese
<b>Non-executive Director</b>		
Mr. Yang Yi Chung (楊維聰)	Flat D, 10/F Block 1, Star Crest No. 9 Star Street Hong Kong	Chinese

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## DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

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Name	Address	Nationality
<b>Independent Non-executive Directors</b>		
Mr. Chung Kwok Mo John (鍾國武)	Flat E, 5/F Tower 2 8 Wai Yin Path Homantin Hillside Hung Hom Kowloon Hong Kong	Chinese
Ms. Lam Suk Ling Shirley (林淑玲)	Flat A, 8/F Block 2 Hung Hom Garden 3 Tsing Chau Street Hung Hom Kowloon Hong Kong	Chinese
Mr. Chun Chi Man (秦治民)	Flat A, 37/F Grand Deco Tower 26 Tai Hang Road Hong Kong	Chinese

For further information, please see the section headed “Directors and Senior Management”.

## PARTIES INVOLVED IN THE [REDACTED]

<b>Sole Sponsor</b>	<b>CMBC International Capital Limited</b> Units 6601A & 6607-08 Level 66, ICC 1 Austin Road West Kowloon Hong Kong
[REDACTED]	[REDACTED]

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**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**Legal advisers to our Company**

*as to Hong Kong law*

**Chiu & Partners**

40/F, Jardine House

1 Connaught Place

Central

Hong Kong

*as to PRC law*

**Jingtian & Gongcheng**

45/F, K. Wah Centre

1010 Huaihai Road (M)

Xuhui District

Shanghai

PRC

*as to Japanese law*

**Anderson Mori & Tomotsune**

Otemachi Park Building

1-1-1 Otemachi

Chiyoda-ku

Tokyo

Japan

**Legal advisers to the Sole Sponsor and  
the [REDACTED]**

*as to Hong Kong law*

**Jones Day**

31/F, Edinburgh Tower

The Landmark

15 Queen's Road

Central

Hong Kong

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**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**Auditor and reporting accountant**

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
22/F, Prince’s Building  
Central  
Hong Kong

**Compliance adviser**

**CMBC International Capital Limited**  
Units 6601A & 6607–08  
Level 66, ICC  
1 Austin Road West  
Kowloon  
Hong Kong

**Industry consultant**

**China Insights Consultancy**  
10/F, Tomorrow Square  
399 West Nanjing Road  
Huangpu District  
Shanghai  
PRC

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## CORPORATE INFORMATION

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<b>Registered Office</b>	Room 2601, 26/F Wing On Centre No. 111 Connaught Road Central Hong Kong
<b>Head office and principal place of business in Japan</b>	2/F and 3/F Kyobashi-Square 3-7-5 Kyobashi Chuo-ku Tokyo Japan
<b>Company website</b>	<a href="http://www.chuo-auction.com.hk">www.chuo-auction.com.hk</a> <i>(information on the website does not form part of this document)</i>
<b>Company secretary</b>	Mr. Yau Chung Hang, <i>HKICPA (non-practicing), FCCA</i> Flat F, 49/F Block 7, Central Park Towers II Tin Shui Wai New Territories Hong Kong
<b>Authorized representatives (for the purpose of the Listing Rules)</b>	Mr. Ando Shokei 5-16-2, Hatanodai Shinagawa-Ku Tokyo-to Japan  Mr. Yau Chung Hang Flat F, 49/F Block 7, Central Park Towers II Tin Shui Wai New Territories Hong Kong  <i>Alternate to the authorized representatives</i> Mrs. Ando Eri 5-16-2, Hatanodai Shinagawa-ku Tokyo-to Japan

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## CORPORATE INFORMATION

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<b>Authorized representatives</b> (for the purpose of the Companies Ordinance)	Mr. Yau Chung Hang Flat F, 49/F Block 7, Central Park Towers II Tin Shui Wai New Territories Hong Kong
<b>Audit committee</b>	Ms. Lam Suk Ling Shirley ( <i>Chairlady</i> ) Mr. Chung Kwok Mo John Mr. Chun Chi Man
<b>Remuneration committee</b>	Mr. Chung Kwok Mo John ( <i>Chairman</i> ) Mrs. Ando Eri Mr. Yang Yi Chung Ms. Lam Suk Ling Shirley Mr. Chun Chi Man
<b>Nomination committee</b>	Mr. Ando Shokei ( <i>Chairman</i> ) Mr. Yang Yi Chung Mr. Chung Kwok Mo John Ms. Lam Suk Ling Shirley Mr. Chun Chi Man
<b>Corporate governance committee</b>	Mr. Chun Chi Man ( <i>Chairman</i> ) Mr. Ando Shokei Mr. Yang Yi Chung Mr. Chung Kwok Mo John Ms. Lam Suk Ling Shirley
<b>[REDACTED]</b>	<b>[REDACTED]</b>
<b>Principal banker</b>	<b>Hongkong and Shanghai Banking Corporation Limited</b> 1 Queen's Road Central Hong Kong

## INDUSTRY OVERVIEW

*The information presented in this section is, including certain facts, statistics and data, derived from the market research report (“CIC Report”) prepared by China Insights Consultancy (“CIC”), which was commissioned by us. We believe that these sources are appropriate for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information that would qualify, contradict or have a material impact on such information since the date of the CIC Report. The information has not been independently verified by our Company, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of our or their respective directors, officers representatives, advisers or any other person involved in the [REDACTED] and no representation is given as to its accuracy. As a result, excessive reliance on the information contained in this publication shall be avoided, even though we believe we have exercised reasonable care in the extraction and reproduction of such information and statistics.*

### SOURCE OF INFORMATION

We commissioned CIC, an Independent Third Party, to conduct an analysis of, and to report on the global Chinese and Japanese art auction market, in particular Hong Kong and Japan for the period from 2012 to 2022. The CIC Report has been prepared by CIC independent of the influence of our Company and other interested parties. The fee payable to CIC for preparing the CIC Report is HK\$490,000, which we consider reflects market rates for similar services. CIC’s services include industry consulting, commercial due diligence, strategic consulting, etc. Its consulting team has been tracking the latest market trends and has some of the most relevant and insightful market intelligence in various industries.

The CIC Report that we commissioned includes information on the macroeconomic environment of Hong Kong, Japan and Mainland China, global overview of the Chinese and Japanese art auction market by region, specific information on market drivers of Hong Kong’s and Japan’s Chinese art auction market, development trends of the Chinese art auction market in Hong Kong and Japan, competitive landscape of the Hong Kong and Japan Chinese art auction market as well as other market and economic data, which have been quoted in this section and other parts of this document.

CIC’s independent research was undertaken through (a) conducting primary research which involved interviewing key industry experts and leading industry participants and (b) conducting secondary research which involved analyzing data from various publicly available data sources, such as the International Monetary Fund, the United Nations, the Hong Kong Census and Statistics Department, the China Association of Auctioneers, other industry associations, etc.

CIC adopted the following assumptions when making forecast in its report: (a) the overall social, economic, and political environment in Hong Kong and Japan are expected to remain stable during the forecast period; (b) global economic and industrial development is likely to maintain a steady growth trend over the next decade; (c) related key industry drivers are likely to continue driving growth in the global Chinese art auction market during the forecast period, including increasing wealthy population, rising per capita incomes, increasing popularity of appreciation of artwork and artwork investment, favorable policies and government support, etc.; and (d) there is no extreme force majeure or industry regulation in which the market may be affected dramatically or fundamentally. In consideration of the basis and assumptions adopted for generating and preparing projected data, the Directors are satisfied that the disclosure of the projected data is not misleading.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the CIC Report.

### OVERVIEW OF THE AUCTION INDUSTRY

Auction is a process of buying and selling items or services by offering them up for bids, taking bids, and then selling them to the highest bidders. The auction market is the market where interested buyers and sellers simultaneously enter ambitious bids and offers. Orders are eventually executed after matching bids and offers are paired together. The price at which an item or a service trades at reflects the highest price the buyer is interested in paying and the lowest price at which the seller is interested in selling. Major categories of items offered at auctions typically include art, jewelry, wine, watch, real estate and vehicle.

## INDUSTRY OVERVIEW

Art includes a diverse range of artworks created through visual, auditory or performing activities, and is presented as different objects, including paintings, photographs and sculptures. Each piece of artwork is marked with the characteristics of the culture behind it. From Asia to Europe, the differences in the evolution of the technology and social structure in each region attach different features to the artworks, such as artworks from the Renaissance period reflecting the intellectual theme of humanism during that period in Europe.

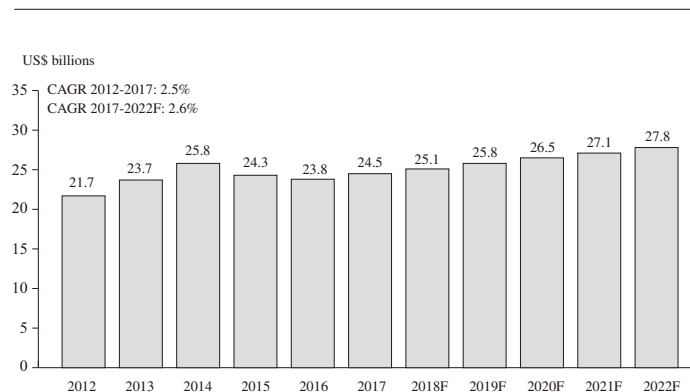
Major categories of artwork can be categorized by origin, which includes Asian art, European art, American art, and by type, which includes calligraphy, painting, antiques, photography and sculptures.

### Overview of the Global Art Auction Market

The market size of the global art auction market in terms of transaction value increased from US\$21.7 billion in 2012 to US\$24.5 billion in 2017, representing a CAGR of 2.5%. Due to the relatively unfavorable economic environment such as global stock market meltdown, oil price fluctuation and decreasing in speculative investments, the global art market experienced a downturn from 2015 to 2016. However, driven by the steady economic development, increase of HNWI and increasing popularity of artwork collection, the global art auction market is expected to see a recovery, with total transaction value growing to US\$27.8 billion in 2022, representing a CAGR of 2.6% between 2017 and 2022.

The following chart sets forth the historical and projected market size of the global art auction market in terms of transaction value:

Market size of the art auction market in terms of transaction value\*, global, 2012-2022F



Note: Above mentioned transaction value includes buyer's commission.

Source: China Insights Consultancy

### Overview of the Global Chinese Art Auction Market

The market size of the global Chinese art auction market in terms of transaction value slightly increased from US\$6,911.0 million in 2012 to US\$7,062.7 million in 2017, representing a CAGR of 0.4%. The decrease between 2013 to 2016 is due to the slowdown of Mainland China's economic growth and industrial restructuring. However, the global Chinese art auction market is expected to grow over the next five years. The total transaction value of the global Chinese art auction market is expected to reach US\$8,267.9 million by 2022, representing a CAGR of 3.2% between 2017 and 2022. Several factors are conducive to the growth of the global Chinese art auction market, including the steady economic development, increase of HNWI, increasing popularity of artwork collection, appreciation of artwork and artwork investment, and the rising demand for high quality artwork.

In 2017, there were approximately 600 auction houses selling Chinese artworks around the world and they held approximately 1,000 auctions. In the same year, approximately 350,000 pieces of Chinese artworks were successfully sold, representing approximately 53% of the total number of Chinese artworks offered for sale worldwide.

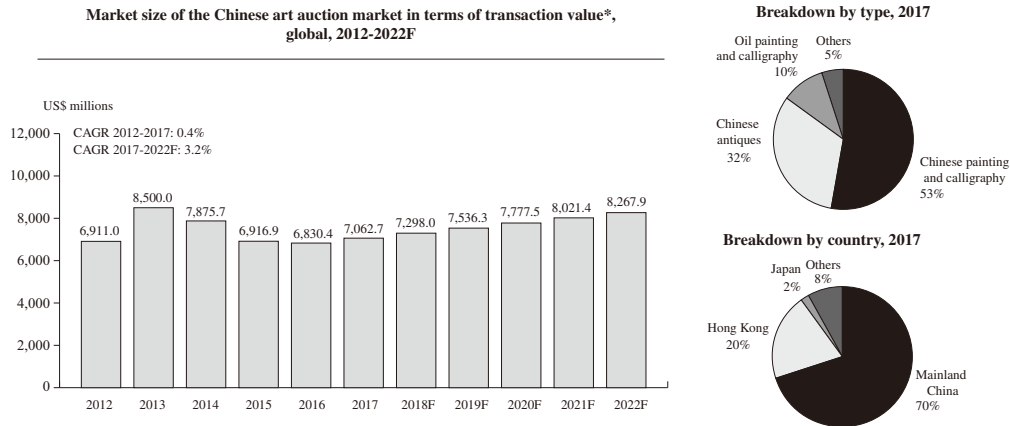
Amongst all Chinese artworks, Chinese painting and calligraphy and Chinese antiques were the two major categories, together accounting for approximately 85% of total transaction value generated in the global Chinese art auction market in 2017.

In 2017, Mainland China had the largest market share of the Chinese art auction market, capturing approximately 70% of the total transaction value of the global Chinese art auction market. Hong Kong is the largest market outside Mainland China, accounting for approximately 20% of the total market share in the same year.



## INDUSTRY OVERVIEW

The following charts set forth the global market size of the Chinese art auction market in terms of transaction value and breakdown by type and by country in 2017:



*Note:* Above mentioned transaction value includes buyer’s commission.  
*Source:* China Insights Consultancy

### Overview of the Chinese Art Auction Market in Hong Kong

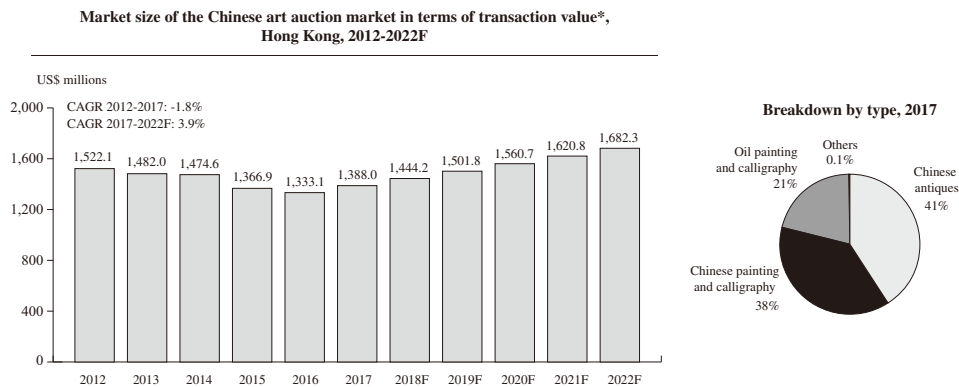
As a free-trade port, it is both simple and tax-free to import and export artworks into and out of Hong Kong. This trade-friendly context has made Hong Kong the leading art market hub in Asia. As the government of Mainland China released policies and regulations to tighten the supervision and control of Chinese artworks, Hong Kong has become the largest Chinese art auction center outside Mainland China.

The market size of Hong Kong’s Chinese art auction market in terms of transaction value slightly decreased from US\$1,522.1 million in 2012 to US\$1,388.0 million in 2017, representing a CAGR of -1.8% due to the economic downturn in Hong Kong and increase of professional preference, and as a result buyers are more rational and careful in purchasing artworks. However, the average auction price shows growth from US\$107.2 thousand in 2012 to US\$128.3 thousand in 2017 because the Hong Kong auction market is getting more mature and the auctioned Chinese artworks are mainly high-end products, which result in growth in average auction price.

Factors including the steady economic development, increase of HNWI, increasing demand from newly established museums and increasing popularity of artwork collection will drive the total transaction value of Hong Kong’s Chinese art auction market to an expected US\$1,682.3 million by 2022, representing a CAGR of 3.9% between 2017 and 2022.

In 2017, the three categories of Chinese artworks with the highest total transaction value in the Chinese art auction market in Hong Kong are Chinese antiques, Chinese painting and calligraphy, and oil painting and calligraphy, representing approximately 41%, 38% and 21% of the total transaction value of the Chinese art auction market in Hong Kong, respectively.

The following charts set forth the market size of the Chinese art auction market in Hong Kong in terms of transaction value for the period stated and breakdown by type in 2017:



*Note:* Above mentioned transaction value includes buyer’s commission.  
*Source:* China Insights Consultancy

## INDUSTRY OVERVIEW

### Overview of the Chinese Art Auction Market in Japan

The cycle of the art auction market correlates to some extent with economic growth. After a long period of recession, Japan’s art auction market has shown signs of recovery since the 2010s. The art auction market in Japan has steadily increased over the past six years. The market size of Japan’s Chinese art auction market in terms of transaction value increased from US\$124.9 million in 2012 to US\$157.1 million in 2017, representing a CAGR of 4.7%.

Japan captured approximately 2.2% of the total transaction value of the global Chinese art auction market in 2017. The average auction price of Chinese artworks in Japan increased from US\$8.7 thousand in 2012 to US\$16.9 thousand in 2017.

The rising number of HNWI, increasing popularity of appreciation of Chinese artworks, and increasing number of Chinese collectors entering into the Japanese art auction market will drive the total transaction value of Japan’s Chinese art auction market to an expected value of US\$210.0 million by 2022, representing a CAGR of 6.0% between 2017 and 2022.

In 2017, the two largest types of Chinese artworks in the Chinese art auction market in Japan are Chinese antiques and Chinese painting and calligraphy, representing approximately 58.0% and 40.0% of the total transaction value of the Chinese art auction market in Japan, respectively.

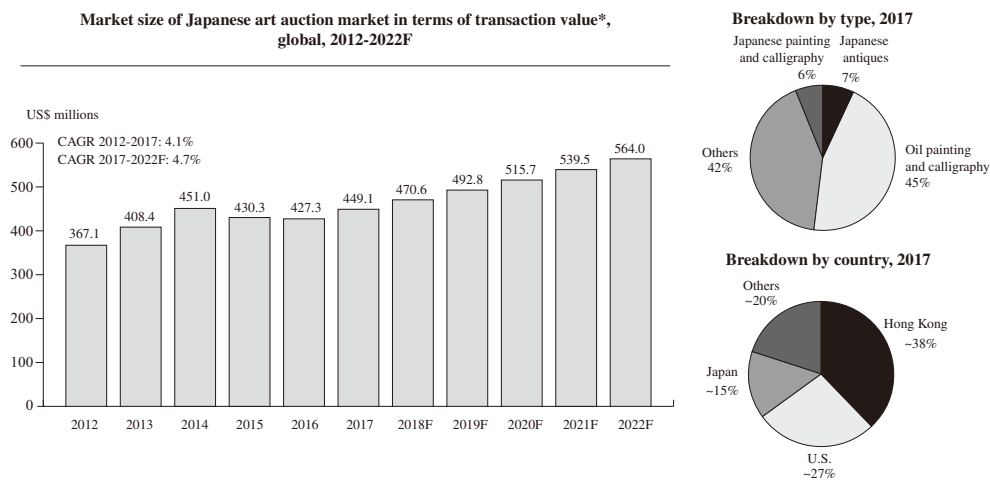
### Overview of the Global Japanese Art Auction Market

The Japanese art auction market comprises of Japanese artworks including Japanese painting and calligraphy antique, and oil painting and calligraphy. The market size of the global Japanese art auction market in terms of transaction value increased from US\$367.1 million in 2012 to US\$449.1 million in 2017, representing a CAGR of 4.1% between 2012 and 2017. Hong Kong and U.S. are the major markets for Japanese artworks, generally selling artworks of some of the most renown Japanese artists at relatively high prices, holding approximately 38% and 27%, respectively, of the total transaction value in the global Japanese art auction market in 2017. On the other hand, Japan captured approximately 15% of the total transaction value in the global Japanese art auction market in 2017.

Driven by the strong demand for Japanese contemporary artworks, increase of HNWI and increasing popularity of artwork collection, the total transaction value of the global Japanese art auction market is expected to continue to increase and reach US\$564.0 million by 2022, increasing at a CAGR of 4.7% between 2017 and 2022.

In Hong Kong, the market size of the Japanese art auction market in terms of transaction value slightly increased from USD135.8 million in 2012 to USD170.7 million in 2017, representing a CAGR of 4.7%. The total transaction value of Hong Kong’s Japanese art auction market is expected to reach USD218.8 million by 2022, representing a CAGR of 5.1% between 2017 and 2022.

The following charts set forth the global market size of Japanese art auction market in terms of transaction value during the period stated and breakdown by type and country in 2017:



Note: Above mentioned transaction value includes buyer’s commission  
Source: China Insights Consultancy

### Overview of the Chinese painting and calligraphy auction market

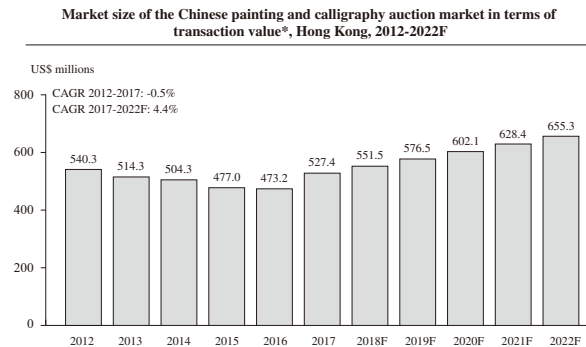
#### Hong Kong

In Hong Kong, the total market size of the Chinese painting and calligraphy auction market decreased from US\$540.3 million in 2012 to US\$527.4 million in 2017, representing a CAGR of -0.5%.

## INDUSTRY OVERVIEW

Since Chinese painting and calligraphy is an important category of Chinese art, the slight decline of Chinese art auction market in Hong Kong brought decrease to Chinese painting and calligraphy auction market between 2012 and 2016 accordingly. In the future, with the increasing demand of Chinese art from HNWI and museums in mainland China, the market is expected to grow with a CAGR of 4.4% and reach US\$655.3 million in 2022.

The following chart sets forth the market size of Chinese painting and calligraphy auction market in Hong Kong during the period stated:



\*Note: Above mentioned transaction value includes buyer's commission

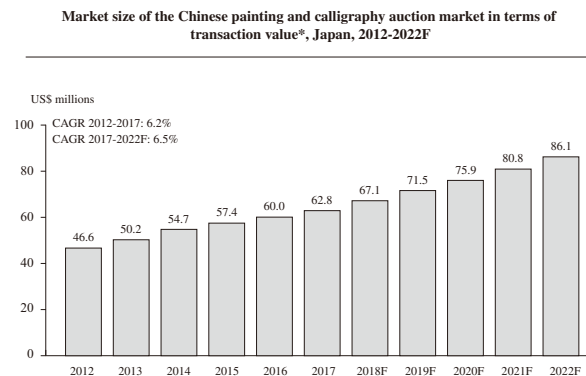
Source: China Insights Consultancy

### Japan

In Japan, the total market size of the Chinese painting and calligraphy auction market increased from US\$46.6 million in 2012 to US\$62.8 million in 2017, representing a CAGR of 6.2%.

Due to the increasing growth of the market size for Chinese art auction market in Japan, Japan's Chinese painting and calligraphy auction market showed similar pattern over the past few years. With the steady growth of global economy, more overseas collectors entering Japan's Chinese art auction market, the transaction volume of Chinese painting and calligraphy will be boosted as well, with its market size reaching US\$86.1 million in 2022.

The following chart sets forth the market size of Chinese painting and calligraphy auction market in Japan during the period stated:



\*Note: Above mentioned transaction value includes buyer's commission

Source: China Insights Consultancy

### Cost analysis of the art auction market in Hong Kong and Japan

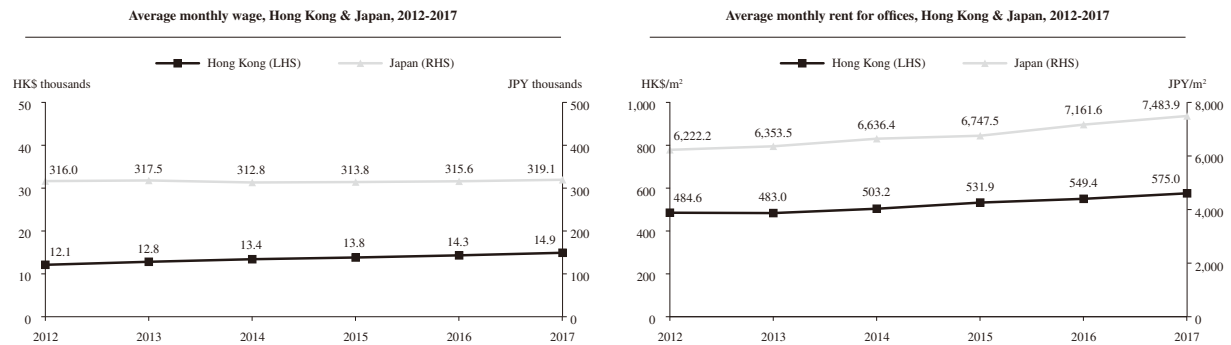
The main costs for art auction houses include costs related to general operation and auctions. In general, operational costs account for approximately 60% of the total costs and are mainly composed of labor costs and rent. Costs for auctions account for approximately 40% of the total cost and generally cover the costs of venue, catalog production, photography and transportation of artworks.

Labor cost is a significant component compared to all expenses. Between 2012 and 2017, the cost of labor in Hong Kong continuously increased, with the average monthly wage rising from HK\$12.1 thousand in 2012 to HK\$14.9 thousand in 2017. In Japan, the average monthly wage increased from JPY316.0 thousand in 2012 to JPY319.1 thousand in 2017. With a stable economic forecast, the costs of labor in both areas are expected to continue to grow. In addition, the increasing demand for high-quality artwork puts higher requirements on professional employees, exerting upward pressure on the salaries.

## INDUSTRY OVERVIEW

Auction houses generally need to rent offices to maintain daily operation. In Hong Kong, the average monthly rent for offices increased from HK\$485 per square meter in 2012 to HK\$575 per square meter in 2017. A similar pattern is observed in Japan with monthly rent rising from JPY6,222 per square meter to JPY7,484 per square meter between 2012 and 2017. The increasing demand for offices and the increasing property prices in these regions will drive rental fees to continue increasing in the future.

The following graphs set forth the average monthly wage and average monthly rent in Hong Kong and Japan for the period stated:



*Note:* The rent is calculated as the average number of the recorded average monthly rent in different regions in Hong Kong and Japan.

*Source:* Census and Statistics Department of Hong Kong, Rating and Valuation Department of Hong Kong, Statistics Bureau of Japan, Nihon Keizai Shimbun.

### Market Drivers of the Chinese Art Auction Market

#### 1. Steady development of economy and Increase of HNWI

Over the past decade, the living standards of Chinese people have greatly improved. One of the reasons is the rapid increase of per capita disposable income in Mainland China, which increased from RMB16.5 thousand in 2012 to RMB26.0 thousand in 2017, representing a CAGR of 9.5%. The population of HNWI in Mainland China increased from 964.0 thousand in 2012 to 1,953.0 thousand in 2017, representing a CAGR of 15.2%. In recent years, the changing economic structure from secondary to tertiary industry in Mainland China has stimulated consumption demand, enhanced employment and accelerated the development of different sectors, including art, education and technology.

Furthermore, Hong Kong’s per capita gross national disposable income rose from HK\$287.9 thousand in 2012 to HK\$373.9 thousand in 2017, representing a CAGR of 5.4%. The positive growth of per capita gross national disposable income and a moderate overall growth rate point to improvements in Hong Kong residents’ living standards over the past several years. The population of HNWI in Hong Kong increased from 93.3 thousand in 2012 to 119.0 thousand in 2017, representing a CAGR of 5.0%. As a result, people are more willing to increase their consumption. This consumption demand in turn will continue to stimulate further development in relevant industries, such as the art and financial services industry.

Similarly, the Japanese government implemented monetary easing policies and stimulative fiscal policies in response to the financial crisis in 2008. These policies stimulate the growth of the purchasing power of Japan’s population, which is a positive sign of the rising demand for consumption in different areas. Consequently, the art auction market will benefit from such increase and the revenue related to Chinese artworks will also increase. The substantial number of wealthy people is associated with Japan’s recovering economy in recent years. The growing economy will propel the increase of HNWI, driving up investment in different areas, especially in artworks.

With enough assets accumulated, people intend to make investments to increase their return. Compared with financial investments like stock, bonds and derivatives, which are highly susceptible to the change of economic and political climate, art is relatively less sensitive to these changes and therefore return from investment in art is more predictable. Combined with the spiritual satisfaction brought by art, many wealthy people prefer to invest in art. Accordingly, the increase of HNWI can effectively stimulate the demand of art investment, which is conducive to boosting the transactions of Chinese artworks through auctions.

#### 2. Appreciation of value of artworks

Due to the appreciation of the value of artworks and the optimistic return harvested accordingly, more investors treat art as an alternative option to traditional investment assets. The appreciation of price is mainly attributed to the esthetic and historical value that comes with the artworks. The masterpieces

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## INDUSTRY OVERVIEW

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created by renowned artists provide the audience with an access to the perspectives and stories of certain period that once helped shape civilization and prompted the progress of culture. The rarity of the masterpieces gives them greater value and contributes to the appreciation of the price over time. With such appreciation sustained, more investors will be attracted to make investment in the art market, which will drive the growth of Chinese art auction market accordingly.

### **3. Increasing popularity of Chinese artwork collection in Mainland China and Japan**

Unlike financial assets, which are highly volatile and susceptible to social and economic events, the value of artwork primarily depends on art-related factors, such as the technique harnessed, the reputation of the artist and the comments from professional critics, which are more predictable and immune from the turmoil of the social environment. The limited supply of artworks, especially master pieces or ancient works, makes artworks particularly valuable and artworks generally appreciate over time and thus, raising the increase popularity of artwork as an asset for investment.

According to the research from the Hurun Research Institute, approximately 70% of HNWI in Mainland China in 2017 are interested in collection. Among the collection categories, antique painting and calligraphy is the most preferred one. Approximately 12.4% of HNWI in Mainland China intend to collect artworks in the following three years. The increasing popularity of art collection will bring more demand for this area. As one of the major channels of artwork purchase, art auctions will become more prosperous in the future.

In Japan’s art auction market, Chinese art is one of the most common categories. Due to cultural exchanges between Japan and China during the Ming and Qing dynasties and the 20th Century, many Chinese artworks were transported to Japan in different ways. During World War II, a great deal of Chinese artworks were brought to Japan by Japan’s antique dealers. The large quantity of Chinese artworks, accompanied with lower prices and less fierce competition in Japan, attract many domestic and foreign investors, especially Chinese collectors to bid in Japan’s auctions.

### **4. Increasing number of museums in Mainland China**

Museum is functioned as an institution to preserve and display valuable objects with regard to history, culture, art or science, and educate the public about their importance for social progress. Such function determines the great need for historical and artistic objects.

According to the State Administration of Cultural Heritage of China, the total number of museums in Mainland China climbed from 3,866 in 2012 to 5,058 in 2017, representing a CAGR of 5.5%, among which the number of state-owned museums increased from 3,219 to 3,565, representing a CAGR of 2.1%. Unlike state-owned museum, which showed a relatively stable growth, the number of private museums grew rapidly from 647 in 2012 to 1,494 in 2017, representing a CAGR of 18.2%.

The rapid growth of the number of museums in Mainland China implies the expanding demand of the public’s intention to spend time in museums. To fulfill such demand, more museums will be established and more artworks, especially Chinese artworks, will be needed to replenish the inventory from time to time. With the physical proximity and adequate supply of Chinese artworks, Hong Kong’s and Japan’s auction market will benefit accordingly.

## **Development trends of the Chinese art auction market in Hong Kong and Japan**

### **1. Increasing number of Chinese artworks**

In the past, the global art auction market was categorized based on geographic boundaries, without much interaction between the different regions. In recent years, the intensified trend of globalization led to frequent interaction between different countries in the artwork market. Under such conditions, the number of Chinese artworks available on the global market gradually increased. With the abundant amount of artworks produced and a great number of Chinese buyers involved in the art auction market, it is foreseeable that the market for Chinese artwork will continue to expand in the future.

### **2. Increasing involvement of Chinese buyers**

With the rapid development of the Chinese economy in the past decade, Chinese people’s incomes have increased significantly and more people are becoming HNWI. The aggregation of personal assets and pursuit towards art culture drive more people to choose artwork as a means of investment. In recent years, Chinese buyers have actively participated in art auctions around the world. With more assets accumulated, it is foreseeable that more Chinese buyers will bid in art auctions in the future.

### **3. More rational consumption**

The Chinese art auction market has become prosperous in Asia in recent years. Potential buyers nowadays have become more informed and professional, leading them to expect higher quality of artwork. This can propel the emergence of more rational consumption and the standardization of the art industry in the future.

### **4. Increasing popularity of Chinese contemporary art**

As buyers’ tastes become more diversified and artworks from Chinese contemporary artists such as Zao Wou-ki, Wu Guanzhong and Zeng Fanzhi reached significant historical record of hammer price,



## INDUSTRY OVERVIEW

appreciation of Chinese contemporary art is likely to develop with increasing popularity. In 2017, the global auction value for contemporary art was approximately US\$2.0 billion to US\$3.0 billion. The auction value for contemporary art is expected to grow with a CAGR of approximately 5% and reach US\$2.6 billion to US\$3.8 billion by 2022.

### COMPETITION

#### Entry Barriers of the Art Auction Market

##### 1. Collection of high value artworks

Preeminent artworks is one of the primary reasons for buyers to participate in an auction. However, these artworks are scarce which puts pressure on auction houses’ channels when gathering the artworks. For example, many high value Japanese antiques are stored by individual collectors. Under this condition, an auction house’s relationship with dealers and the ability to collect high-end products determine the amount of the high value artworks the auction house can collect and thus offer, which is one of the most major entry barriers for auction houses operating business.

##### 2. Customer base with strong purchasing power

Many auction houses have accumulated their own customer base with strong purchasing power. Loyal customers can help the auction houses save time and cost spent on promoting auctions. In addition, with the familiarity to the customers’ taste and background, auction houses can pick the artworks that fulfill customers’ preference and thus this can enhance the success rate of the bids. In deciding which auction house to cooperate with, collectors tend to pay more attention to the number of financially sound customers the auction house has. The more valuable artworks there are, the more customers will be attracted to the auction. As a result, having a stable group of customers with sound financial background will put an auction house in a superior position under competition. However, building up such a customer base requires a long time and is often an obstacle for new players.

##### 3. Sound reputation

Reputation determines the performance and standing of an auction house in the long run. Many factors can affect the reputation of an auction house. Besides the quantity of premium artworks and wealthy customers, the professionalism of the experts for authentication, the degree of consideration of the services provided, and the efficiency of payment collection can affect the reputation of an auction house. The establishment of a sound reputation requires a relatively long time, which may be hard for new players to build at first.

#### Competitive Landscape of the Chinese Art Auction Market and our Company’s position

##### Asia (excluding Mainland China)

In 2017, our Company ranked fourth with approximately 6.5% of the total market share in relation to the total transaction value generated from Chinese art auction business in Asia (excluding Mainland China). According to the CIC Report, there are approximately 52 auction houses selling Chinese artworks in Asia (excluding Mainland China). The market is relatively concentrated, and the top 5 players collectively held 78.6% of total market share in terms of transaction value in 2017.

The following chart sets forth the top five auction houses by market share of the Chinese art auction business in Asia (excluding Mainland China) in 2017:

Rank	Company	Market share of total transaction value for Chinese art auction market in Asia (excluding Mainland China) (%)
1	Company A	28.5
2	Company B	21.5
3	Company C	15.8
4	Our Company	6.5
5	Company D	6.3
<i>Top five subtotal</i>		<i>78.6</i>
<i>Total</i>		<i>100.0</i>

*Note:* Above mentioned transaction value includes buyer’s commission  
*Source:* Public annual report, China Insights Consultancy

## INDUSTRY OVERVIEW

### Japan

In 2017, our Company ranked second with approximately 26.8% of the total market share in relation to the total transaction value generated from Chinese art auction business in Japan. According to the CIC report, there are approximately 10 auction houses selling Chinese artworks in Japan. The market is dominated by local players, which have taken the top three positions and collectively held 77.4% of the total market share in terms of transaction value in 2017.

The following chart sets forth the top three auction houses by market share of the Chinese art auction business in Japan in 2017:

**Top three auction houses by market share of the Chinese art auction business, Japan, 2017**

Rank	Company	Market share of total transaction value for Chinese art auction market in Japan (%)
1	Company E	27.7
2	Our Company	26.8
3	Company F	22.9
<b>Top three subtotal</b>		<b>77.4</b>
<b>Total</b>		<b>100.0</b>

*Note:* Above mentioned transaction value includes buyer’s commission

*Source:* Public annual report, China Insights Consultancy

### Hong Kong

According to the CIC report, there are approximately 100 auction houses in Hong Kong as of 2017. The market is shared by a variety of players, including both domestic and foreign companies. The top five players collectively held 86.5% of total market share in terms of transaction value in 2017.

The top three players have captured approximately 74.9% of the transaction value generated in Hong Kong’s Chinese art auction market in 2017.

Our Company entered into the Hong Kong Chinese art auction market in 2013 and held the first auction in November 2014. Our Company’s market share of the total transaction value generated in the Hong Kong Chinese art auction market reached 4.4% in 2017. Our Company ranked fifth among all auction houses with Chinese art auction business in terms of transaction value from Chinese art auction business in Hong Kong in 2017.

The following chart sets forth Hong Kong’s top five auction houses by market share of the Chinese art auction business in 2017:

**Top five auction houses by market share of the Chinese art auction business, Hong Kong, 2017**

Rank	Company	Market share of total transaction value for Chinese art auction market in Hong Kong (%)
1	Company A	32.4
2	Company B	24.5
3	Company C	18.0
4	Company D	7.2
5	Our Company	4.4
<b>Top five subtotal</b>		<b>86.5</b>
<b>Total</b>		<b>100.0</b>

*Note:* Above mentioned transaction value includes buyer’s commission

*Source:* Public annual report, China Insights Consultancy

## INDUSTRY OVERVIEW

### Competitive Landscape of the Japanese Art Auction Market and our Company’s position

#### *Hong Kong*

The Japanese art auction market in Hong Kong is highly dominated by international players. The top three companies are all international companies, which collectively held approximately 67.9% of the total market share in terms of transaction value in 2017.

Our Company ranked fifth among all auction houses in terms of transaction value from Japanese art auction business in Hong Kong with approximate transaction value generated from Japanese art auction business of reaching approximately 1.4% of the total transaction value generated in Hong Kong’s Japanese art auction market in 2017.

The following table sets forth the top five auction houses by market share of the Japanese art auction business in Hong Kong in 2017:

**Top five auction houses by market share of the Japanese art auction business, Hong Kong, 2017**

Rank	Company	Market share of total transaction value for Japanese art auction market in Hong Kong (%)
1	Company A	31.6
2	Company B	28.7
3	Company G	7.6
4	Company C	4.1
5	Our Company	1.4
<i>Top five subtotal</i>		<i>73.4</i>
<i>Total</i>		<i>100.0</i>

*Note:* Above mentioned transaction value includes buyer’s commission

*Source:* China Insights Consultancy

#### *Japan*

Unlike the Japanese art auction market in Hong Kong, the Japanese art auction market in Japan is dominated by local players, the top five of which are all local companies, which collectively held approximately 77.1% of the total market share in terms of transaction value in 2017.

Our Company ranked fifth among all auction houses in the Japanese art auction market in Japan in terms of transaction value from Japanese art auction business with approximately 3.1% of the Japanese art auction market in Japan in terms of total transaction value in 2017.

The following table sets forth the top five auction houses by market share of the Japanese art auction business in Japan in 2017:

**Top five auction houses by market share of the Japanese art auction business, Japan, 2017**

Rank	Company	Market share of total transaction value for Japanese art auction market in Japan (%)
1	Company H	44.5
2	Company I	15.7
3	Company J	9.6
4	Company K	4.2
5	Our Company	3.1
<i>Top five subtotal</i>		<i>77.1</i>
<i>Total</i>		<i>100.0</i>

*Note:* Above mentioned transaction value includes buyer’s commission

*Source:* China Insights Consultancy



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## REGULATORY OVERVIEW

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This section sets out a summary of the principal laws and regulations of Hong Kong, Japan and the PRC which are most significant and relevant to our business operations in Hong Kong, Japan and the PRC (but which are not meant to be exhaustive).

### HONG KONG REGULATORY ENVIRONMENT

#### Regulatory Authority

There is no special administrative authority with the main function of supervising and regulating auction activities in Hong Kong.

#### Hong Kong Legal Issues

##### *Trade Description Ordinance (CAP. 362) (“TDO”)*

Among other things, the TDO provides that any person who (a) in the course of any trade or business (i) applies a false trade description to any goods; or (ii) supplies or offers to supply any goods to which a false trade description is applied; or (b) has in his possession for sale or for any purpose of trade or manufacture any goods to which a false trade description is applied, commits an offense. Section 2 of the TDO provides that “trader” means any person (other than an exempt person) who, in relation to a commercial practice, is acting, or purporting to act, for purposes relating to the person’s trade or business, and an auctioneer is not an exempt person under Schedule 3 of the TDO.

Given the wide scope of TDO, it is likely to bind any person in the course of trading, including an auctioneer if an auctioneer applies false trade description on the goods in the catalog. In addition, auctioneers are in particular, responsible for the trade description of, and will be regarded as the supplier of goods in the sale of gold and gold alloy, platinum, natural fei cui, diamond and electronic products according to Trade Descriptions (Marking) (Gold and Gold Alloy) Order (CAP. 362A), Trade Descriptions (Marking) (Platinum) Order (CAP. 362C), Trade Descriptions (Provision of Information on Natural Fei Cui) Order (CAP. 362M), Trade Descriptions (Provision of Information on Diamond) Order (Cap. 362N) and Trade Descriptions (Provision of Information on Regulated Electronic Products) Order (CAP. 362O) respectively (collectively, the “**Supplier of Goods Ordinances**”). Nevertheless, the Supplier of Goods Ordinances though relevant to us, does not directly apply to us as our Company does not auction the goods specified in these ordinances.

##### *Mock Auction Ordinance (CAP. 255) (the “MAO”)*

The main purpose of the MAO is to prohibit certain practices relating to sales purporting to be sales by auction. According to MAO, any person who promotes or conducts, or assists in the promotion or conduct of, a mock auction at which one or more lots are sold or offered for sale shall be guilty of an offense and shall be liable on conviction on indictment to a fine of \$20,000 and to imprisonment for five years. The MAO is relevant to us as it provides a legal framework for auctions conducted in Hong Kong, but it does not affect us, as we do not engage in “mock auctions” as defined in the MAO.

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## REGULATORY OVERVIEW

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### *Sale of Goods Ordinance (CAP. 26) (the "SOGO")*

The SOGO governs the formation, effects and performance of a contract, as well as remedies for breach of the contract. In the course of our business, if we conclude a contract with a buyer to sell the artwork we own, such a contract is in general subject to the SOGO. If we sell artworks consigned to us at auctions, such sales are subject to Section 60 of Part VI Supplementary of the SOGO. Section 60 provides that:

- (a) where goods are put up for sale by an auction in lots, each lot is prima facie deemed to be the subject of a separate contract of sale;
- (b) a sale by auction is complete when the auctioneer announces its completion by the fall of the hammer, or in other customary manner. Until such announcement is made any bidder may retract his bid;
- (c) where a sale by auction is not notified to be subject to a right to bid on behalf of the seller, it shall not be lawful for the seller to bid himself or to employ any person to bid at such sale, or for the auctioneer knowingly to take any bid from the seller or any such person. Any sale contravening this rule may be treated as fraudulent by the buyer; and
- (d) a sale by auction may be notified to be subject to a reserve or upset price, and a right to bid may also be reserved expressly by or on behalf of the seller.

### *Anti-money Laundering and Counter-terrorist Financing*

#### *(1) Legislations*

As a member of Financial Action Task Force (the "FATF"), Hong Kong implements recommendations promulgated by the FATF on anti-money laundering and counter-terrorist financing. Below is a brief introduction of the principal legislation in Hong Kong in relation to anti-money laundering and counter-terrorist financing.

- (i) Drug Trafficking (Recovery of Proceeds) Ordinance (CAP. 405) (the "DTROP")

Among other things, DTROP contains provisions for the investigation of assets suspected to be derived from drug trafficking activities, the freezing of assets on arrest and the confiscation of the proceeds from drug trafficking activities. Under the DTROP, a person commits an offense if, knowing or having reasonable grounds to believe that any person's proceeds of drug trafficking, he deals with that property. It's also provides that a person shall report to authorized officer when he knowing or having reasonable grounds to believe that any property, directly or indirectly, represents proceeds of drug trafficking. Failure of making such report also constitutes an offense.

- (ii) Organized and Serious Crimes Ordinance (CAP. 455) (the "OSCO")

Among other things, the OSCO empowers officers of the Police and the Customs and Excise Department to investigate organize crime and triad activities and it gives the courts jurisdiction to confiscate the proceeds of organized and serious crimes, to issue restraint orders and charging orders in relation to the property of defendants of specified offenses. The OSCO extends the money laundering offense to cover the proceeds of all indictable offenses in addition to drug trafficking.

## REGULATORY OVERVIEW

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(iii) United Nations (Anti-Terrorism Measures) Ordinance (CAP. 575) (the "UNATMO")

Among other things, the UNATMO provides that it would be a criminal offense to: (i) provide or collect funds (by any means, directly or indirectly) with the intention or knowledge that the funds will be used to commit, in whole or in part, one or more terrorist acts; or (ii) make any funds or financial (or related) services available, directly or indirectly, to or for the benefit of a person knowing that, or being reckless as to whether, such person is a terrorist or terrorist associate. The UNATMO also requires a person to report his knowledge or suspicion of terrorist property to an authorized officer, and failure to make such disclosure constitutes an offense under the UNATMO.

(iv) Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (CAP. 615) (the "AMLO")

Among other things, the AMLO contains requirements for customer due diligence and record-keeping. It's also provides regulatory authorities with the powers to supervise compliance with the requirements under the AMLO. Besides, the regulatory authorities are empowered to (i) ensure that proper safeguard exist to prevent contravention of specified provisions in the AMLO and (ii) mitigate money laundering and terrorist financing risks.

(2) *Practice Guideline*

Except for the legislation above, the Hong Kong Narcotics Division, Security Bureau also provides Anti-Money Laundering and Counter-Terrorist Financing Guideline for accountants, estate agents, precious metals and precious stones dealers and trust and company service providers. The Guide provides practical guidance to assist entities in designing and implementing their own anti-money laundering and counter-terrorist financing policies, procedures and controls in order to meet the relevant legal and regulatory requirements in Hong Kong. Under the Guide, among other things:

- (i) Failing to report knowledge or suspicion of crime proceeds or terrorist property is a criminal offense. If a person goes on to deal with such property knowing or having reasonable grounds to believe that the property is crime proceeds, then he/she may have committed the offense of money laundering.
- (ii) Companies should always conduct customer due diligence, maintain proper records of transactions and have in place a proper internal control system.
- (iii) Conducting on-going monitoring of following activities of client: incommensurate background of buyer; high value transactions conducted in cash but not in other popular and safe methods of payment; unusual payment method; unusual buying behavior/pattern; unusual behavior of the person or persons conducting the transactions; request for over/under-invoicing of purchases.

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## REGULATORY OVERVIEW

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### *Capital Gains and Profit Tax*

No tax is imposed in Hong Kong in respect of capital gains from the sale of Shares. Trading gains from the sale of Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are arising in or derived from Hong Kong, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 16.5% and on unincorporated businesses at a rate of 15.0%. Gain from sales of the Shares effected on the Stock Exchange will be considered to be sourced in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of Shares effected on the Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

### *Business Registration Ordinance*

Every person, (a company or individual), who carries on a business in Hong Kong is required under the Business Registration Ordinance (Cap. 310) to apply for a business registration certificate from the Inland Revenue Department within one month from the date of commencement of the business, and to display a valid business registration certificate at the place of business. Business registration does not serve to regulate business activities and it is not a license to trade. Business registration serves to notify the Inland Revenue Department of the establishment of a business in Hong Kong. Business registration certificate will be issued on submission of the necessary document(s) together with payment of the relevant fee. A business registration certificate is renewable every year or every three years (if business operators elect for issuance of business registration certificate that is valid for three years). Any person who fails to apply for business registration shall be guilty of an offense and shall be liable to a fine of HK\$5,000 and to imprisonment for one year. As at the Latest Practicable Date, our Group has the required business registration certificate for our business in Hong Kong.

## JAPAN REGULATORY ENVIRONMENT

### **General Overview of the Japanese Legal System**

#### *Primary Features*

The Japanese legal system has the following significant features:

- The Japanese legal system is a hybrid civil law system with characteristics of both civil law system, such as the French and German civil legal systems, as well as common law systems, such as the United States legal system.
- Under Japanese law, any act shall not be subject to criminal prosecution unless such act is explicitly and clearly described as a crime under a strict contextual interpretation of the applicable statutory provisions.
- Court rulings, although they have a *de facto* binding effect on inferior courts, do not modify existing law or create new law. Laws can only be adopted or modified through the legislative process.

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## REGULATORY OVERVIEW

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- Court rulings, similar to court rulings in other civil and common law systems elsewhere, may be overturned by laws and regulations and/or amendments to existing laws and regulations enacted or adopted by legislative or executive authorities.
- The highest court in Japan is the Supreme Court.

### Regulatory Authority

There is no special administrative authority with the main function of supervising and regulating the auction activities in Japan. However, those engaged in auction activities are required to obtain an approval from a prefectural Public Safety Commission pursuant to the Secondhand Articles Dealer Act (Act No.108 of 1949) (the “**Secondhand Articles Dealer Act**” or “**SADA**”). For the details, please see the subsection headed “— Secondhand Articles Dealer Act” below.

### Japan Legal Issues

#### *Secondhand Articles Dealer Act*

Under the SADA, the persons who engage in sale or exchange of secondhand goods, or the sale or exchange of secondhand goods under consignment are required to obtain an approval by the Public Safety Commission pursuant to section 3 of the SADA. The approval qualifications are specified in the SADA. The SADA requires the business operators, among other things, to identify the name, address, occupation and ages of the seller and buyer in the course of its auction business and to preserve the information of the trade including the date of the trade, the characteristics and the number of the article(s), the buyer of the article(s), etc. The SADA also requires the business operators to respond to reports of lost or stolen goods issued by the police as well as to submit to spot inspections of their premises and records by the police during business hours.

TCA Japan has obtained the approval under the SADA and there are no terms and conditions of such approval with which TCA Japan is required to comply other than those terms provided in applicable laws and regulations.

#### *Anti-money Laundering Laws and Regulations*

Japanese anti-money laundering laws mainly consist of the following three Acts:

- the Act on Special Provisions for the Narcotics and Psychotropics Control Act, etc, and Other Matters for the Prevention of Activities Encouraging Illicit Conduct and Other Activities Involving Controlled Substances through International Cooperation (Act No. 94 of 1991) (the “**Anti-Drug Special Provisions Act**” or “**ADSPA**”);
- the Act on Punishment of Organized Crimes and Control of Crime Proceeds (Act No. 136 of 1999) (the “**Act on Punishment of Organized Crimes**” or “**APOC**”); and
- the Act on Prevention of Transfer of Criminal Proceeds (Act No.22 of 2007) (the “**Act on Prevention of Transfer of Criminal Proceeds**” or “**APTCP**”).

## REGULATORY OVERVIEW

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Below is a brief introduction of the above Acts in Japan in relation to anti-money laundering.

(i) The Anti-Drug Special Provisions Act

Among other things, the ADSPA criminalizes money laundering activities as set out below:

- (a) concealment of drug crime proceeds, which include:
  - disguising facts with respect to acquisition or disposition of drug crime proceeds;
  - concealing drug crime proceeds; and
  - disguising facts with respect to the source of drug crime proceeds.
- (b) receipt of drug crime proceeds

The ADSPA provides for the confiscation of criminal proceeds related to drug crimes.

(ii) The Act on Punishment of Organized Crimes

Among other things, the APOC criminalizes as money laundering:

- (a) managing an enterprise by the use of criminal proceeds;
- (b) concealment of crime proceeds; and
- (c) receipt of crime proceeds.

The APOC extends the scope of predicated offenses of money laundering from drug-related crimes to other serious crimes.

(iii) The Act on Prevention of Transfer of Criminal Proceeds

The APTCP requires the covered institutions and persons to conduct certain preventive measures including due diligences on customers and business partners. Specifically, the APTCP imposes an obligation on "specified business operators", as defined in the Act, to take the preventive measures, such as customer due diligence.

In this regards, in case where TCA Japan sales and purchases gold, platinum or other precious metals specified by a cabinet order or diamonds or other jewels designated by a cabinet order in the course of auction trade, then TCA Japan would be considered to be a "specified business operator". However, given that TCA Japan is not a seller of articles with the buyer but acts as an agent of the seller in the course of auction trade conducted in Japan, the APTCP is not applicable to TCA Japan.

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## REGULATORY OVERVIEW

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As a member of Financial Action Task Force (the “**FATF**”), Japan has amended the APTCP as set out below in consideration of the recommendations made by the Financial Action Task Force in 2011.

- the verification of the purpose of transactions and beneficial owner at the time of transaction;
- the addition of call forwarding service providers to the list of covered institutions and persons; and
- the addition of measures for the verification at the time of transactions; and strengthening the punishments on illicit transfers of passbooks.

### ***Labor Protection***

The labor statutes originate from the basic principles of labor law set out in Japan’s Constitution and are enacted as special rules of the civil, criminal and administrative laws. In practice, court precedents and guidelines issued by the administrative authorities play important roles as well.

The Labor Standards Act is one of the important statute which sets out minimum standards for labor conditions in addition to regulatory provisions. The Labor Contract Act sets out the rules regarding employment. There are other labor-related laws such as the Industrial Safety and Health Act (Act No. 57 of 1972) which provides standards for employers regarding the health and safety of employees including the employer’s responsibilities and plans for accident prevention in the workplace. In addition to the above, as employment is a contract, the provisions of the Civil Law apply, as a general rule, to matters not provided in the labor-related statute.

### ***Intellectual Property***

In Japan, intellectual property rights are granted under the relevant acts, which include:

- the Patent Act (No. 121 of 1959);
- the Utility Model Act (No. 123 of 1959);
- the Design Act (No. 125 of 1959);
- the Trademark Act (No. 127 of 1959);
- the Copyright Act (No. 48 of 1970); and
- the Unfair Competition Prevention Act (No. 47 of 1993).

For example, patents are protected by the Patent Act and the Utility Model Act. Designs are protected by the Design Act, and trademarks by the Trademark Act. The Company must comply with these, in addition to various international treaties Japan has entered into, to maintain the intellectual property rights.



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## REGULATORY OVERVIEW

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### *Personal Information Protection*

The Act on the Protection of Personal Information (No.57 of 2003) is the main statute in Japan for the protection of personal information. The Act requires private business operators handling personal information must limit the use of personal information to the stated purpose and to properly manage the personal information in their possession, and forbids it from providing personal information to third parties without the consent of the individual. In 2015, an amendment was promulgated aiming to eliminate the ambiguity of the regulatory framework and facilitate the proper use of personal data by business operators while strengthening the protection of privacy, which was fully implemented on May 30, 2017.

### CHINA REGULATORY ENVIRONMENT

We are subject to various laws and regulations of the PRC that are material to our presence in the PRC relating to TCA Shanghai and are discussed below.

#### China Legal Issues

##### *Foreign Investment*

The Wholly Foreign-Owned Enterprise Law of PRC (《中華人民共和國外資企業法》), which was amended by the Standing Committee of the National People’s Congress (the “**SCNPC**”) on October 31, 2000 and amended on September 3, 2016 which became effective on October 1, 2016, and the Implementation Measures for the Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法實施細則》), which was amended by the State Council on April 12, 2001, came into effect on the same day and amended on February 19, 2014, stipulates that PRC permits foreign enterprises and other economic organizations or individuals to establish wholly foreign-owned enterprises (the “**WFOEs**”) in China. The establishment and change of a WFOE which involves the implementation of special access administrative measures prescribed by the State Council shall be subject to the examination and approval by the competent commercial departments before an Approval Certificate is issued, while the establishment and change of a WFOE which does not involve the implementation of special access administrative measures shall be subject to the record-filing management.

The Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the “**Interim Measures**”) was promulgated by the Ministry of Commerce (the “**MOFCOM**”) On October 8, 2016, which came into effect on the same day and was amended on July 30, 2017. According to the Interim Measures, if the incorporation and change of a foreign-invested enterprise does not involve the implementation of special access administrative measures prescribed by the state, the Interim Measures shall be applied. When handling the procedures of the record-filing of the establishment or change, foreign-invested enterprises or their investors shall upload relevant documents via the foreign investment comprehensive administration information system (外商投資綜合管理信息系統).

Investments in the PRC by foreign investors are regulated by the Guidance Catalog of Industries for Foreign Investment (《外商投資產業指導目錄》, the “**Catalog**”), the latest version of which was promulgated by the National Development and Reform Commission (the “**NDRC**”) and the MOFCOM on June 28, 2017 and became effective on July 28, 2017. The Catalog has been a longstanding tool used by policymakers of the PRC to manage direct foreign investment. The Catalog is divided into the encouraged industries, the restricted industries and the prohibited industries for foreign investment, and industries which are not listed in the Catalog shall be categorized as the permitted industries for foreign investment.



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## REGULATORY OVERVIEW

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### *Enterprises Income Tax*

According to the Law on the Enterprises Income Tax (企業所得稅法), which was promulgated by the National People’s Congress (the “NPC”) on March 16, 2007 and became effective on January 1, 2008, and was amended on February 24, 2017 and the Implementation Regulations on the Law of the Enterprises Income Tax (企業所得稅法實施條例), which was promulgated by the State Council on December 6, 2007 and became effective on January 1, 2008, a uniform income tax rate of 25% will be applied to the PRC enterprises, foreign-invested enterprises and foreign enterprises which have established production and operation facilities in PRC.

### *Value-Added Tax*

The Temporary Regulations on Value-added Tax (增值稅暫行條例), which was promulgated by the State Council on December 13, 1993, became effective on January 1, 1994, and was amended on November 10, 2008 and amended on November 19, 2017, which became effective on the same day, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (增值稅暫行條例實施細則), which was promulgated by the Ministry of Finance (“MOF”) and became effective on December 25, 1993, and was amended on December 15, 2008 and October 28, 2011, set out that all taxpayers selling goods or providing processing, repairing or replacement services and importing of goods within PRC shall pay value-added tax. The tax rate of 17% shall be levied on general taxpayers selling or importing various goods; the tax rate of 17% shall be levied on the taxpayers providing processing, repairing or replacement service; the applicable rate for the export of goods by taxpayers shall be Nil, unless otherwise stipulated.

Pursuant to the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知) promulgated by the MOF and the State Administration of Taxation (the “SAT”) on March 23, 2016 and became effective on May 1, 2016, the pilot program of the collection of value-added tax in lieu of business tax (hereinafter referred to as the “VAT in lieu of BT”) shall be promoted nationwide in a comprehensive manner as of May 1, 2016, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of value-added tax instead of business tax. Entities and individuals engaged in sales of services, intangible assets or real property within the territory of PRC are value-added taxpayers, and shall pay value-added tax rather than business tax according to the Implementing Measures for the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (營業稅改徵增值稅試點實施辦法).

### *Labor Protection*

Pursuant to the PRC Labor Law (《中華人民共和國勞動法》), which was promulgated by the SCNPC on July 5, 1994 and became effective on January 1, 1995 and subsequently amended on August 27, 2009, the PRC Labor Contract Law (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on June 29, 2007 and subsequently amended on December 28, 2012 and became effective on July 1, 2013, and the Implementing Regulations of the Employment Contracts Law of the PRC (《中華人民共和國勞動合同法實施條例》), which was promulgated by the State Council and became effective on September 18, 2008, labor contracts in written form shall be executed to establish labor relationships between employers and employees. Wages cannot be lower than local minimum wage. The employer must establish a system for labor safety and sanitation, strictly abide by state standards, and provide education regarding labor safety and sanitation to its employees. Employers shall provide employees with labor safety and sanitation conditions in compliance with the State rules and necessary protection materials and carry out regular health examination for employees engaged in work involving occupational hazards.

## REGULATORY OVERVIEW

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### *Social Security and Housing Funds*

Under applicable PRC laws, including the Social Insurance Law of PRC (《中華人民共和國社會保險法》), which was promulgated by the SCNPC on October 28, 2010 and became effective on July 1, 2011, the Interim Regulations on the Collection and Payment of Social Security Funds (《社會保險費徵繳暫行條例》), which was promulgated by the State Council and became effective on January 22, 1999, the Interim Measures concerning the Maternity Insurance (《企業職工生育保險試行辦法》), which was promulgated by the Ministry of Labor on December 14, 1994 and became effective on January 1, 1995, the Regulations on Occupational Injury Insurance (《工傷保險條例》), which was promulgated by the State Council on April 27, 2003 and became effective on January 1, 2004 and subsequently amended on December 20, 2010, becoming effective on January 1, 2011, and the Regulations on the Administration of Housing Accumulation Funds (《住房公積金管理條例》), which was promulgated by the State Council and became effective on April 3, 1999 and amended on March 24, 2002, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance and to housing accumulation funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### HISTORY AND DEVELOPMENT

Our business commenced in 2010 when TCA Japan was incorporated in Japan. TCA Japan was established and founded by Mr. Ando, the chairman of our Board, an executive Director and Controlling Shareholder. Please refer to the section headed “Directors and Senior Management — Directors — Executive Directors” in this document for the information of Mr. Ando. We are one of the leading auction houses of Chinese and Japanese artworks in Hong Kong and Japan. With over seven years’ of operating experience in the Chinese and Japanese art auction industry, we have grown into a well-recognized and trusted auction brand in Hong Kong and Japan. We specialize in auctioneering a wide variety of artworks with emphasis on Chinese and Japanese artworks, including Chinese paintings and calligraphies, Chinese antiques and Japanese and Chinese tea wares. Please refer to the section headed “Business” in this document for further details of our business operations.

#### Milestones

The following events are the key corporate and business development milestones of our Group:

November 2010	TCA Japan was incorporated.
February 2011	We held the first Spring Auction in Japan.
September 2011	We held the first night exhibition for tea props and Chinese artworks. We established the brand “One Encounter, One Chance*” (一期一會) for marketing of the tea wares. We held a Chinese ceramics auction session which focused on items from a museum in Kyushu, Japan. We also held the first Autumn Auction in Japan.
May 2013	We introduced our brand “One Encounter, One Chance*” (一期一會) into Hong Kong.
July 2013	Our Company was established.
May 2014	We held the exhibition — Fou Mo East Travels — Wuchang Shuo 170th Anniversary Exhibition* (缶墨東遊—吳昌碩生誕170週年紀念展). We also cooperated with a publisher in Japan to publish the album “Fou Mo East Travels — Wuchang Shuo 170th Anniversary Exhibition” for this exhibition.
November 2014	We held the first Autumn Auction in Hong Kong.
June 2015	We held the national appraisal fair for artworks in Osaka, Nagoya, Okayama and Shiya, Japan for the first time.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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- September 2015 We included the artworks from the “Treasures from Kuonoike Family Collection\*” (鴻池男爵家舊藏) as our auction lots for TCA Japan’s fifth anniversary auction.
- November 2015 At the Autumn Auction in Hong Kong, we achieved the first white-glove sale in the sale of “The Enchantment of Chinese Ink\*” (古韻墨翰), meaning 100% successful sale rate in selling all the auction articles in this collection.
- April 2016 We participated in the International Exposition of Intangible Cultural Heritage and Ancient Art Macao (澳門•非物質文化遺產暨古代藝術國際博覽會) for the first time.
- June 2016 We co-organized one exhibition with Kyoto Municipal Museum of Art with two sessions, namely (1) Ki-Seki — An Exhibition of Ancient Chinese Lacquerware from the Hayashibara Collection\* (漆跡—舊林原企業藏漆器展) and (2) Kaku-Cho — Paintings by Wang Shimin, Wang Jian, Wang Hui, Wang Yuanqi, Wu Li and Yun Shouping\* (格調—抗古齋藏四王吳惲六家畫展).
- July 2016 We sponsored the Faculty of Fine Art of Tokyo University of the Arts, Japan.
- August 2016 We held the exhibition of a hundred pieces of plaques by Yanfang\* (晏方匾額百品展覽).
- April 2017 We co-organized one cultural exhibition with Kyoto Municipal Museum of Art with two sessions, namely (1) Collection of Fine Scholar’s Objects — Showcase of Fine Scholar’s Objects of Collectors\* (文房聚珍—名家收藏文房清供) and (2) Enchantment of Chinese Ink — Exhibition of Paintings of Wu Changshuo and Qi Baishi collected by Shuang Shi Caotang \* (墨妙—雙石艸堂藏吳昌碩齊白石書畫展).
- April 2018 We held an exhibition “Gao Mai — Collections of Painting in Ming Dynasty by Collectors\*” (高邁—明代書畫名家收藏展) at Kyoto Municipal Museum of Art.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### ESTABLISHMENT AND MAJOR CHANGES CONCERNING OUR COMPANY AND THE OPERATING SUBSIDIARY OF OUR COMPANY

During the Track Record Period, the principal business of our Group had been operated under our Company and an operating subsidiary of our Company, TCA Japan. Following the incorporation of TCA HK in February 2018, certain employment contracts entered into by our Company as employer were novated and assigned to TCA HK by our Company in March 2018. Since then, TCA HK acted as the operating subsidiary of our Group in Hong Kong. Please refer to the paragraph headed “Corporate restructuring — (4) Incorporation of TCA HK” in this section for further details. The establishment and major changes concerning our Company and TCA Japan (our major subsidiary that made material contribution to our revenue during the Track Record Period) are set out below. Our Company and TCA Japan commenced business from their respective dates of incorporation.

#### **Incorporation and change in issued share capital of our Company**

Our Company was incorporated on July 11, 2013. Upon incorporation, one subscriber Share was issued, at HK\$1, by our Company to Mr. Ando. Prior to the establishment of TCA HK, it was principally engaged in auction business.

On January 8, 2014, our Company allotted and issued 48 Shares and 51 Shares for cash at par, to Mr. Ando and Mr. Feng Heqing (馮和卿) (“**Mr. Feng**”) respectively, among which the 51 Shares was held on trust by Mr. Feng on behalf of Mr. Ando. Mr. Feng is the father-in-law of Mr. Ando. As a result, the entire issued share capital of our Company was wholly and beneficially owned by Mr. Ando.

On December 19, 2017, as part of the Reorganization, at the direction of Mr. Ando, Mr. Feng transferred back the 51 Shares, representing 51% of the then entire issued share capital of our Company, to Mr. Ando at Nil consideration, and the trust arrangement ceased. Please refer to the paragraph headed “The Reorganization — Corporate restructuring — (2) Transfer back of the 51% issued share capital in our Company by Mr. Feng to Mr. Ando” in this section for further details.

#### **Incorporation and major changes concerning TCA Japan**

(a) *Incorporation of TCA Japan and subsequent transfer of common shares of TCA Japan to Mrs. Ando, Mr. Katsu, Mr. Xie and Mr. Nashida*

TCA Japan is a company incorporated under the laws of Japan on November 1, 2010. It is principally engaged in auction business. Upon incorporation, 400 common shares of TCA Japan were issued to Mr. Ando. As such, the entire issued shares of TCA Japan was owned by Mr. Ando.

On September 27, 2011, in order to recognize the contribution of certain management of our Group to TCA Japan, an aggregate of 70 common shares of TCA Japan was transferred by Mr. Ando as to 50 common shares to Mrs. Ando (Mr. Ando’s wife), 10 common shares to Mr. Katsu, six common shares to Mr. Xie Jinglin (解景麟) (“**Mr. Xie**”), the former manager of TCA Japan responsible for tea ware and overseas operations, and four common shares to Mr. Nashida Masayuki (梨田正之) (“**Mr. Nashida**”), the former officer responsible for the administration function of TCA Japan, by way of gift. As a result, the entire issued shares of TCA Japan was owned as to 82.5% by Mr. Ando, 12.5% by Mrs. Ando, 2.5% by Mr. Katsu, 1.5% by Mr. Xie and 1% by Mr. Nashida.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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*(b) Allotment of common shares of TCA Japan to Mr. Ando, conversion of 200 common shares of TCA Japan to class A shares of TCA Japan and subsequent transfer of class A shares of TCA Japan*

On December 8, 2011, 600 common shares of TCA Japan was issued to Mr. Ando. In addition, as part of TCA Japan corporate restructuring 180, 10, six and four common shares of TCA Japan held by Mr. Ando, Mr. Katsu, Mr. Xie and Mr. Nashida, respectively, were converted to class A shares of TCA Japan pursuant to a resolution of meeting of shareholders of TCA Japan held on the same date. Shareholders of class A shares of TCA Japan do not have any voting right at the general meeting of shareholders of TCA Japan. As a result, the entire issued shares of TCA Japan was owned as to 93% by Mr. Ando, 5% by Mrs. Ando, 1% by Mr. Katsu, 0.6% by Mr. Xie and 0.4% by Mr. Nashida.

On May 23, 2013, in order to recognize the contribution of certain management of our Group to TCA Japan, an aggregate of 80 class A shares of TCA Japan was transferred by Mr. Ando as to 40 class A shares to Mr. Katsu, 24 class A shares to Mr. Xie and 16 class A shares to Mr. Nashida, respectively, by way of gift. On the same date, six common shares of TCA Japan was transferred by Mr. Ando to Mrs. Ando by way of gift. As a result, the entire issued shares of TCA Japan was owned as to 84.4% by Mr. Ando, 5.6% by Mrs. Ando, 5% by Mr. Katsu, 3% by Mr. Xie and 2% by Mr. Nashida.

*(c) Transfer of class A shares of TCA Japan to Mr. Yodo*

On June 1, 2015, in order to recognize the contribution of Mr. Yodo Hiroaki (養藤博昭) (“**Mr. Yodo**”), an external advisor, a minority shareholder of TCA Japan and an Independent Third Party, to TCA Japan, 30 class A shares of TCA Japan was transferred by Mr. Ando to Mr. Yodo by way of gift. As a result, the entire issued shares of TCA Japan was owned as to 81.4% by Mr. Ando, 5.6% by Mrs. Ando, 5% by Mr. Katsu, 3% by Mr. Xie, 2% by Mr. Nashida and 3% to Mr. Yodo.

*(d) Acquisition of 92% the entire issued shares in TCA Japan by our Company*

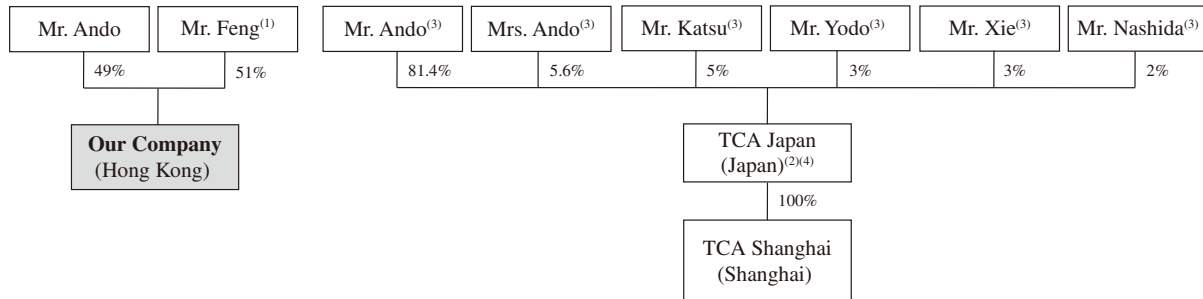
On August 30, 2017, as part of the Reorganization, our Company acquired (i) the entire issued shares in TCA Japan held by Mr. Ando, which represents 81.4% of the entire issued shares in TCA Japan and (ii) the entire issued shares in TCA Japan held by Mrs. Ando, which represents 5.6% of the entire issued shares in TCA Japan. Please refer to the paragraph headed “The Reorganization — Corporate restructuring — (1) Acquisition of the entire issued shares in TCA Japan held by Mr. Ando and Mrs. Ando by our Company” in this section for further details. As a result, the entire issued shares in TCA Japan were owned as to 87% by our Company, 5% by Mr. Katsu, 3% by Mr. Xie, 2% by Mr. Nashida and 3% by Mr. Yodo.

On January 29, 2018, as part of the Reorganization, our Company acquired (i) the entire issued shares in TCA Japan held by Mr. Xie, which represents 3% of the entire issued shares in TCA Japan and (ii) the entire issued shares in TCA Japan held by Mr. Nashida, which represents 2% of the entire issued shares in TCA Japan. Please refer to the paragraph headed “The Reorganization — Corporate restructuring — (3) Acquisition of the entire issued shares in TCA Japan held by Mr. Xie and Mr. Nashida by our Company” in this section for further details. As a result, the entire issued shares in TCA Japan were owned as to 92% by our Company, 5% by Mr. Katsu and 3% by Mr. Yodo.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### THE REORGANIZATION

Immediately prior to the Reorganization, the structure of our Group was as follows:



*Notes:*

1. Mr. Feng held the Shares on trust for Mr. Ando.
2. TCA Japan was registered as a non-Hong Kong company.
3. Among the 1,000 shares of TCA Japan, 800 shares are common shares and 200 shares are class A shares. Shareholders of class A shares do not have any voting right at the general meeting of shareholders of TCA Japan. Mr. Ando held 744 common shares and 70 class A shares; all the shares held by Mrs. Ando are common shares; and all the shares held by each of Mr. Katsu, Mr. Yodo, Mr. Xie and Mr. Nashida were class A shares.
4. TCA Japan has a representative office in Taiwan.

### Corporate restructuring

To rationalize our Group’s structure in preparation for the [REDACTED], our Group underwent various corporate restructuring as more particularly described as follows:

*(1) Acquisition of the entire issued shares in TCA Japan held by Mr. Ando and Mrs. Ando by our Company*

Pursuant to the share purchase agreements dated August 30, 2017 entered into by our Company with each of Mr. Ando and Mrs. Ando, our Company acquired (i) the entire issued shares in TCA Japan held by Mr. Ando, which represents 81.4% of the entire issued shares in TCA Japan, at a cash consideration of JPY565,848,030; and (ii) the entire issued shares in TCA Japan held by Mrs. Ando, which represents 5.6% of the entire issued shares in TCA Japan, at a cash consideration of JPY38,928,120. The consideration for such acquisitions were determined between the parties on an arm’s length basis with reference to the net asset value of TCA Japan as at August 31, 2016. The consideration was settled on August 30, 2017 and the transfer became effective on the same date. Following such acquisition, the entire issued shares in TCA Japan was owned as to 87% by our Company, 5% by Mr. Katsu, 3% by Mr. Xie, 2% by Mr. Nashida and 3% by Mr. Yodo and TCA Japan became a direct non-wholly owned subsidiary of our Company.



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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(2) *Transfer back of the 51% issued share capital in our Company by Mr. Feng to Mr. Ando*

Mr. Ando has been the beneficial owner of the entire issued share capital of our Company since its incorporation. 51% of the entire issued share capital of our Company were registered under the name of Mr. Feng who held such Shares on trust for Mr. Ando. On December 19, 2017, at the direction of Mr. Ando, Mr. Feng transferred back the 51 Shares, representing 51% of the then entire issued share capital of our Company, to Mr. Ando at Nil consideration, and the trust arrangement ceased.

(3) *Acquisition of the entire issued shares in TCA Japan held by Mr. Xie and Mr. Nashida by our Company*

Pursuant to the share purchase agreements dated January 29, 2018 entered into by our Company with each of Mr. Xie and Mr. Nashida, our Company acquired (i) the entire issued shares in TCA Japan held by Mr. Xie, which represented 3% of the entire issued shares in TCA Japan, at a cash consideration of JPY18,168,870; and (ii) the entire issued shares in TCA Japan held by Mr. Nashida, which represented 2% of the entire issued shares in TCA Japan, at a cash consideration of JPY12,112,580. The consideration for such acquisitions were determined between the parties on an arm's length basis with reference to the net asset value of TCA Japan as at August 31, 2017. The transfer became effective on January 29, 2018. The consideration was settled on February 8, 2018. Following such acquisitions, the entire issued shares in TCA Japan were owned as to 92% by our Company, 5% by Mr. Katsu and 3% by Mr. Yodo.

(4) *Incorporation of TCA HK*

TCA HK, a limited liability company in Hong Kong was incorporated on February 13, 2018 to act as our Group's operating entity in Hong Kong in lieu of our Company. At the time of incorporation, our Company subscribed for one ordinary share in TCA HK at HK\$1.

On March 1, 2018, pursuant to the deed of novations entered into between TCA HK, as the new employer, our Company, as the previous employer, and certain of the employees of our Company, the respective employment contracts of these employees were novated and assigned to TCA HK by our Company. Since then, TCA HK acts as the operating subsidiary of our Group in Hong Kong.

Upon completion of the above corporate restructuring, our Company became the holding company of the members of our Group.

As advised by our Japanese legal advisers, we have obtained and completed all the requisite and approvals, registrations and/or filings formalities in all material aspects from the relevant Japanese government authorities in respect of the Reorganization, and the Reorganization to the extent that Japanese laws are applicable, has complied with the applicable laws and regulations in Japan.



## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### PRE-[REDACTED] INVESTMENTS

For the long-term business development of our Group, we entered into the Pre-[REDACTED] Investments below.

#### *The subscription of the Convertible Notes*

On April 24, 2018, (i) our Company as issuer; (ii) Mr. Ando as guarantor; and (iii) each of Mr. Chan, Happy Capricorn, Paradise Global, Mr. Tse and Mr. Yang, as investors, entered into a subscription agreement for the subscription of the Convertible Notes. Our Company issued the Convertible Notes to each of these Pre-[REDACTED] Investors on the same date.

On April 25, 2018, (i) our Company as issuer; (ii) Mr. Ando as guarantor; and (iii) Centurion Equity as investor entered into a subscription agreement for the subscription of the Convertible Note. Our Company issued the Convertible Note to Centurion Equity on the same date.

The subscription agreements mentioned above are collectively, the “**Subscription Agreements**” and each a “**Subscription Agreement**”.

#### *The Convertible Notes*

A summary of the Pre-[REDACTED] Investments made by each of the Pre-[REDACTED] Investors and principal terms and conditions of the respective Convertible Notes as created by the respective Note Instruments are set out below:

Pre-[REDACTED] Investor <i>(Note 1)</i>	Mr. Chan	Happy Capricorn	Paradise Global	Mr. Tse	Mr. Yang	Centurion Equity
<b>Issue date of the Convertible Note</b>	April 24, 2018	April 24, 2018	April 24, 2018	April 24, 2018	April 24, 2018	April 25, 2018
<b>Principal amount of the Convertible Note and consideration paid for the subscription of the Convertible Note</b>	HK\$7 million	HK\$7 million	US\$1 million	HK\$3 million	HK\$7 million	HK\$7 million
<b>Basis of consideration</b>	The consideration represents 100% of the principal amount of the Convertible Note subscribed for by each Pre-[REDACTED] Investor					
<b>Date on which the consideration was fully and irrevocably settled</b>	April 24, 2018	April 24, 2018	April 24, 2018	April 25, 2018	April 24, 2018	April 25, 2018

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Pre-[REDACTED] Investor (Note 1)	Mr. Chan	Happy Capricorn	Paradise Global	Mr. Tse	Mr. Yang	Centurion Equity
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**Interest and interest payment date** (a) 1% per annum on the outstanding principal amount of the Convertible Note

The Convertible Note shall bear interest on the outstanding principal from the date of the Note Instrument until the earlier of (i) the Maturity Date (as defined below), (ii) the Conversion Date (as defined below) or (iii) the date (the “**Early Redemption Date**”) on which the Convertible Note is early redeemed by our Company as referred to the paragraph headed “Early redemption at the option of our Company” below, which shall be payable in arrears every six calendar months.

(b) In the event that an [REDACTED] (“**Qualified [REDACTED]**”) of the Shares (or its depository receipts or other securities evidencing Shares) by our Company and [REDACTED] of the Shares on the main board of the Stock Exchange, Singapore Stock Exchange, New York Stock Exchange, NASDAQ Stock Exchange, London Stock Exchange, Tokyo Stock Exchange or such other stock exchange as mutually agreed by our Company and the Pre-[REDACTED] Investor (“**Recognized Stock Exchange**”) does not take place on or before the Maturity Date or, as the case may be, the Early Redemption Date, the Convertible Note shall bear an additional interest on the outstanding principal at the rate of 7% per annum to be accrued from the date of the Note Instrument until the Maturity Date or, as the case may be, the Early Redemption Date. All outstanding interest shall be payable on the Maturity Date, or as the case may be, the Early Redemption Date.

(c) Interest on the Convertible Note shall accrue from day to day on the basis of the actual number of days elapsed and a year of 365 days.

**Maturity Date** Expiry date of 12 months from the date of the Note Instrument, and if agreed between our Company and the Pre-[REDACTED] investor, may be extended for a further 12-month period (“**Maturity Date**”)

**Early redemption at the option of our Company** On or at any time after December 31, 2018 until the Maturity Date, our Company may redeem all (but not some only) of the outstanding principal amount of the Convertible Note at a redemption price equal to the aggregate of (i) the outstanding principal amount of the Convertible Note to be redeemed; and (ii) all outstanding interest of the Convertible Note accrued until the Early Redemption Date.

Our Company has undertaken to each Pre-[REDACTED] Investor that no Qualified [REDACTED] will take place within 180 days after the Early Redemption Date.

**Conversion right** Unless the Pre-[REDACTED] Investor elects to exercise the Opt-out Right (as defined below), at any time prior to the Maturity Date, all (but not part of) the outstanding principal amount of the Convertible Note shall be automatically and mandatorily converted into fully paid Shares (“**Conversion Shares**”) on the [REDACTED] (“**Conversion Date**”).

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Pre-[REDACTED] Investor (Note 1)	Mr. Chan	Happy Capricorn	Paradise Global	Mr. Tse	Mr. Yang	Centurion Equity
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**Determination on the number of Conversion Shares** The number of Conversion Shares will be determined based on the following formula:

$$A = (B / (C \times 10)) \times D$$

*Where*

“A” means the number of Conversion Shares to be allotted and issued by our Company to the Pre-[REDACTED] Investor upon conversion of the principal amount of the Convertible Note into Shares, disregarding fractions and rounded down to the nearest whole Conversion Shares;

“B” means all the outstanding principal amount of the Convertible Note and, in respect of Paradise Global, the Hong Kong dollar equivalent thereof at the exchange rate of US\$1: HK\$7.84;

“C” means 54,962,000, being the adjusted profit attributable to owners of our Company for the financial year ended March 31, 2018, which shall be determined based on the profit attributable to owners of our Company for the financial year ended March 31, 2018 as set out in the audited consolidated or combined financial statements of our Company for the year ended March 31, 2018 to be included in the document of our Company to be issued by our Company in connection with an [REDACTED] of Shares for subscription and sale in connection with the Qualified [REDACTED], but excluding (i) all costs and expenses incurred by our Company in respect of the Qualified [REDACTED]; (ii) all costs and expenses incurred by our Company in respect of the Subscription Agreement and the transactions contemplated thereunder; (iii) all costs and expenses incurred by our Company in respect of the other Subscription Agreements and the transactions contemplated thereunder; and (iv) the fair value loss of the Convertible Note and the other Convertible Notes; and

“D” means [REDACTED], being the total number of issued Shares outstanding as at the Conversion Date, including the Shares to be allotted and issued pursuant to the [REDACTED] and the conversion of the other Convertible Notes, but excluding such Shares to be allotted and issued pursuant to the [REDACTED] and/or the exercise of the [REDACTED].

The above conversion formula was determined by the parties after arm’s length negotiations with reference to the agreed earning multiple of the profit attributable to owners of our Company for the year ended March 31, 2018 then estimated by the parties.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Pre-[REDACTED] Investor <i>(Note 1)</i>	Mr. Chan	Happy Capricorn	Paradise Global	Mr. Tse	Mr. Yang	Centurion Equity
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### Opt-out Right

The Pre-[REDACTED] Investor shall have the right (the “**Opt-out Right**”) to elect that all (but not part) of the outstanding principal amount of the Convertible Note shall not be automatically and mandatorily converted into fully-paid Conversion Shares in writing to our Company at any time prior to 6:00 p.m. on the Business Day immediately after the [REDACTED], provided that such Opt-out Right shall not be exercisable by the Pre-[REDACTED] Investor if the [REDACTED] of the Shares immediately upon closing of the [REDACTED], based on the final [REDACTED] and the number of Shares to be in issue on the Conversion Date (including all Shares to be issued pursuant to the conversion of the Convertible Note and the other Convertible Notes but taking no account of any Shares to be issued pursuant to the exercise of the [REDACTED]) shall be not less than HK\$[REDACTED].

Our Company has no present intention to consent to reduce the number of [REDACTED] being [REDACTED] under the [REDACTED] and/or the [REDACTED] so that the [REDACTED] of our Shares upon completion of the [REDACTED] (taking no account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED], and the options to be granted under the Share Option Scheme) shall fall below [REDACTED] unless we have obtained waiver from the noteholders of the Convertible Notes as to their Opt-out Right under the Convertible Notes or otherwise in compliance with the Listing Rules in regards to public float requirements. As such, it is expected that the Pre-[REDACTED] Investors are not entitled to exercise their Opt-out Right, and all the Convertible Notes shall be automatically and mandatorily converted into Conversion Shares on the [REDACTED].

### Transferability

The Convertible Note is not transferrable without the prior written consent of our Company and unless in compliance with any applicable requirements under the listing rules of the Recognized Stock Exchange and the applicable laws.

### Events of default

Upon occurrence of an event of default, including, among others, our Company failing to pay when due any principal or other amount payable with respect to the Convertible Note, or our Group ceasing or being disqualified to carry on its business or any substantial part thereof or changing its business, or default in the due observance or performance of any term, covenant, undertaking or agreement contained in the Note Instrument or any of the other transaction documents by our Company, or our Company or its subsidiaries becoming insolvent or an order is made or an effective resolution is passed for the winding-up of our Company or any of its subsidiaries, the Pre-[REDACTED] Investor shall have the right to demand our Company to forthwith redeem the Convertible Note in full at the aggregate amount of (i) the outstanding principal amount of the Convertible Note; (ii) all accrued and unpaid interest on the outstanding principal amount of the Convertible Note; and (iii) default interest on the outstanding principal amount of the Convertible Note at the rate of 25% per annum to be accrued from day to day on the basis of the actual number of days elapsed and a year of 365 days from the date of the Note Instrument until the date of actual payment of all outstanding principal amount and all interest accrued thereon (including default interest) has been fully repaid.

Number of Shares and approximate percentage of shareholding in our Company immediately upon [REDACTED] <i>(Note 2)</i>	[REDACTED] Shares, [REDACTED]%	[REDACTED] Shares, [REDACTED]%	[REDACTED] Shares, [REDACTED]%	[REDACTED] Shares, [REDACTED]%	[REDACTED] Shares, [REDACTED]%	[REDACTED] Shares, [REDACTED]%
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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Pre-[REDACTED] Investor (Note 1)	Mr. Chan	Happy Capricorn	Paradise Global	Mr. Tse	Mr. Yang	Centurion Equity
Investment cost per Share (Note 2)	HK\$[REDACTED]	HK\$[REDACTED]	HK\$[REDACTED]	HK\$[REDACTED]	HK\$[REDACTED]	HK\$[REDACTED]
Discount to the mid-point of the [REDACTED]% (Note 3)	Approximately [REDACTED]% <sup>#</sup>					
Use of proceeds	The proceeds from the Convertible Notes shall be used to fund the capital expenditures and working capital of our Group. As at the Latest Practicable Date, such proceeds had not been fully utilized.					
Strategic benefits to our Group	Widen our Group’s capital base.					
Lock-up period and public float	The Conversion Shares to be held by each of the Pre-[REDACTED] Investors upon conversion of the respective Convertible Notes are not subject to any lock-up period after [REDACTED]. In view of (i) the Pre-[REDACTED] Investors are Independent Third Parties; (ii) as represented by each of the Pre-[REDACTED] Investors, he/it is independent of and not acting upon or accustomed to take instructions from, directly or indirectly, funded or backed by, or acting in concert with (as defined in the Takeovers Code), any connected persons of our Company in relation to the control of our Company or any acquisition, disposal, voting or any other disposition of securities in our Company; and (iii) none of the Pre-[REDACTED] Investors will become a substantial Shareholder upon [REDACTED], the Conversion Shares to be held by the respective Pre-[REDACTED] Investors upon conversion of the respective Convertible Notes immediately after [REDACTED] will be considered as part of the public float after [REDACTED] for the purpose of Rule 8.08 of the Listing Rules.					

*Notes:*

- (1) Each of the Pre-[REDACTED] Investors is the respective subscriber of the Convertible Notes.
- (2) Based on the respective number of Conversion Shares to be held by each of the Pre-[REDACTED] Investor and the total number of Shares in issue upon completion of the [REDACTED] and the [REDACTED], taking no account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme.
- (3) Based on the [REDACTED] of HK\$[REDACTED] per Share (being the mid-point of the [REDACTED]).

### ***Special rights granted to the Pre-[REDACTED] Investors***

Pursuant to the Investors’ Rights Agreement dated April 24, 2018 entered into between our Company, Mr. Ando, Mr. Chan, Happy Capricorn, Paradise Global, Mr. Tse and Mr. Yang and a deed of adherence dated April 25, 2018 entered into by Centurion Equity, the Pre-[REDACTED] Investors were granted a number of special rights, all of which shall cease to have effect upon [REDACTED], in relation to the management of our Company and other matters of our Company. A summary of these special rights is set out below:

*(a) Information rights and visiting rights*

Our Company shall provide to the Pre-[REDACTED] Investors annual, quarterly and monthly financial information of our Group, annual business plan, board and shareholders’ resolutions, and the manuals, documents and policies of our Group in relation to corporate governance or internal control.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Each Pre-[REDACTED] Investor is permitted to visit the properties of members of our Group, to access to the books and accounts of members of our Group and all information and documents of members of our Group relating to the business or otherwise to the affairs and financial or other position of the members of our Group.

*(b) Designate a non-executive Director to our Board*

Paradise Global shall have the right to appoint one person to act as a non-executive Director to our Board (the “**Investor Director**”) and such appointment shall be in any event before the submission of [REDACTED] by our Company in connection with the Qualified [REDACTED].

*(c) Restriction on transfer of shares and first right of refusal*

Prior to the Qualified [REDACTED], Mr. Ando may not, without the consent of the Pre-[REDACTED] Investors and other than pursuant to (a) the transactions contemplated under the transaction documents as defined in the respective Subscription Agreements; (b) the sale of Shares under the Qualified [REDACTED]; or (c) the granting of [REDACTED]s and the transfer of Shares pursuant to any [REDACTED] to cover any [REDACTED] under the Qualified [REDACTED], (i) transfer, sell, dispose of, or approve the transfer, sale or disposal of, any of the Shares or the beneficial interest therein; or (ii) create or permit to subsist any mortgage, charge, pledge, lien, encumbrance or other security interest whatsoever on or over or in respect of all or any of the Shares held by him or on which he has an interests and shall not otherwise encumber or dispose of any of his Shares or otherwise purport to deal with the beneficial or economic interest therein (including but not limited to his voting rights) or any right relating thereto.

If any Shareholder (the “**Transferor**”) proposes to transfer or sell any Shares (the “**Transfer Shares**”) held by it (the “**Proposed Transfer**”), the other Pre-[REDACTED] Investors shall have the right to elect to purchase any of the Transfer Shares subject to the terms and conditions as described in the transfer notice to be given by the selling Shareholder.

Mr. Ando has covenanted and undertaken to the Pre-[REDACTED] Investors that from the respective date of signing of the Subscription Agreements and up to the date of the Qualified [REDACTED], he will continue to hold at least 30% of the voting rights of our Company.

*(d) Tag-along rights*

The Pre-[REDACTED] Investors shall have the right to participate in the Proposed Transfer and to sell to the third party purchaser at the same price and same terms and conditions of Shares registered in the name of the Pre-[REDACTED] Investors (if any).

*(e) Drag-along rights*

If Mr. Ando is the Transferor and proposes to sell his Shares and the Transfer Shares represent 50% or more of the entire issued Shares, Mr. Ando shall have the right, upon his intended sale of the Transfer Shares, to require all other Shareholders (the “**Drag-Along Shareholders**”) to transfer all its respective Shares (the “**Drag-Along Shares**”) to the third party purchaser simultaneously as Mr. Ando transfers his Transfer Shares to the third party purchaser. The sale of the Drag-Along Shares shall be on terms and conditions equivalent to the terms and conditions for sale of the Transfer Shares of Mr. Ando to the third party purchaser.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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(f) *Prior consent for certain corporate actions*

Our Company shall not (whether through itself or its subsidiaries), and Mr. Ando shall procure none of our Company or its subsidiaries shall, carry out, among others, various major transactions unless with the prior written approval of the Pre-[REDACTED] Investors, including but not limited to change of its principal business or conducting any business or operation which is not in its ordinary course of business, acquiring any material assets, authorizing or undertaking any arrangement for the disposal of any material assets or business of our Group, incurring any material capital expenditure, entering into material contracts, removing Mr. Ando as a Director except such removal is compulsorily required by the applicable laws or regulations, recommending or declaring an interim or a final dividend (except in respect of retained profits of our Company or any of its subsidiaries in respect of any accounting period ending on or before the date of the Investors' Rights Agreement), or amending or repealing the organizational documents of our Company or the constitutional documents of any subsidiary of our Company which will affect or be in relation to the rights and interests of the Pre-[REDACTED] Investor or the Shareholders or subsidiaries of our Company.

*Information about the Pre-[REDACTED] Investors*

(1) *Mr. Chan*

Mr. Chan is a merchant and was a customer of our Group (one of our top five customers for the years ended March 31, 2016 and 2018) during the Track Record Period and one of our top five suppliers of our Group for the year ended March 31, 2018. Please refer to the sections headed "Business — Customers" and "Business — Suppliers" of this document for further details. Save as disclosed, Mr. Chan does not have any relationship with our Group or any connected person of our Company.

(2) *Happy Capricorn*

Happy Capricorn is a company incorporated in the Republic of Vanuatu on June 4, 2013. It is wholly owned by Ms. Kang Ning ("**Ms. Kang**"). To the best of our Directors' knowledge, information and belief, Happy Capricorn is an investment holding company and Ms. Kang is a merchant. Neither Happy Capricorn nor Ms. Kang has any relationship with our Group or any connected person of our Company.

(3) *Paradise Global*

Paradise Global is a company incorporated in Seychelles on January 5, 2016. It is wholly owned by Ocean Equity Partners Fund II, L.P. ("**Ocean Equity**"), which is an exempted limited partnership registered in the Cayman Islands and is principally engaged in the business of investing in private enterprises in Asia Pacific region. Sagamore China Partners III, L.P. ("**Sagamore China**") is a limited partner of Ocean Equity. The sole general partner of Sagamore China is Sagamore China General Partner III, L.P. ("**Sagamore GP**") and the sole general partner of Sagamore GP is Sagamore China GP III Limited ("**Sagamore Limited**"). Mr. YC Yang, our non-executive Director, is the sole director of Sagamore Limited. Save as disclosed, neither Paradise Global nor any of its ultimate beneficial owner(s) has any relationship with our Group or any connected person of our Company.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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(4) *Mr. Tse*

Mr. Tse has approximately 25 years of experience in auditing, accounting and corporate finance with professional qualification. Mr. Tse does not have any relationship with our Group or any connected person of our Company.

(5) *Mr. Yang*

Mr. Yang is a merchant and a customer of our Group during the Track Record Period. Save as disclosed, Mr. Yang does not have any relationship with our Group or any connected person of our Company.

(6) *Centurion Equity*

Centurion Equity is a company incorporated in the BVI on February 9, 2015. It is wholly owned by Novel Centurion Limited, which is in turn wholly owned by Mr. Chao Kee Young Ronald (“**Mr. Chao**”) who was a customer of our Group (one of our top five customers for the year ended March 31, 2016) during the Track Record Period. Please refer to the section headed “Business — Customers” of the document for further details. Furthermore, the niece of Mr. Chao is the wife of Mr. YC Yang, our non-executive Director. Save as disclosed, neither Centurion Equity nor any of its ultimate beneficial owner has any other relationship with our Group or any connected person of our Company.

***Sole Sponsor’s confirmation***

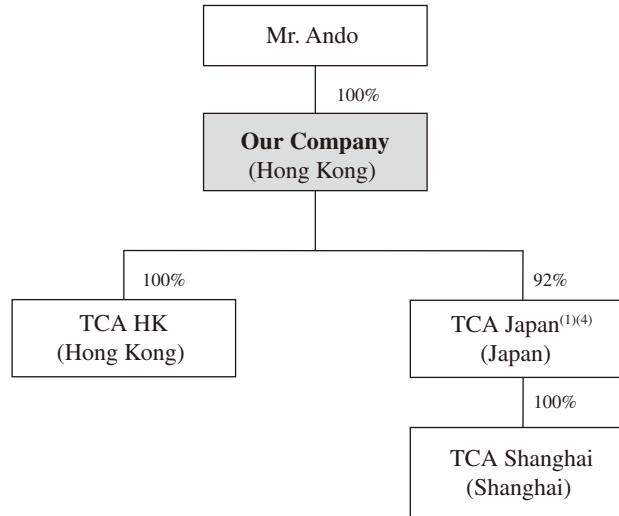
Since the consideration for the Pre-[REDACTED] Investments was fully settled by the Pre-[REDACTED] Investors more than 28 clear days before the date of submission of the [REDACTED] by our Company and the special rights granted to the Pre-[REDACTED] Investors will lapse upon [REDACTED], the Sole Sponsor is of the view that the Pre-[REDACTED] Investments are in compliance with the Interim Guidance on Pre-[REDACTED] Investments (HKEx-GL29-12), the Guidance on Pre-[REDACTED] Investments (HKEx-GL43-12) and the Guidance on Pre-[REDACTED] Investments in Convertible Instruments (HKEx-GL44-12).



## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group immediately before the completion of the [REDACTED] and the [REDACTED]:



*Notes:*

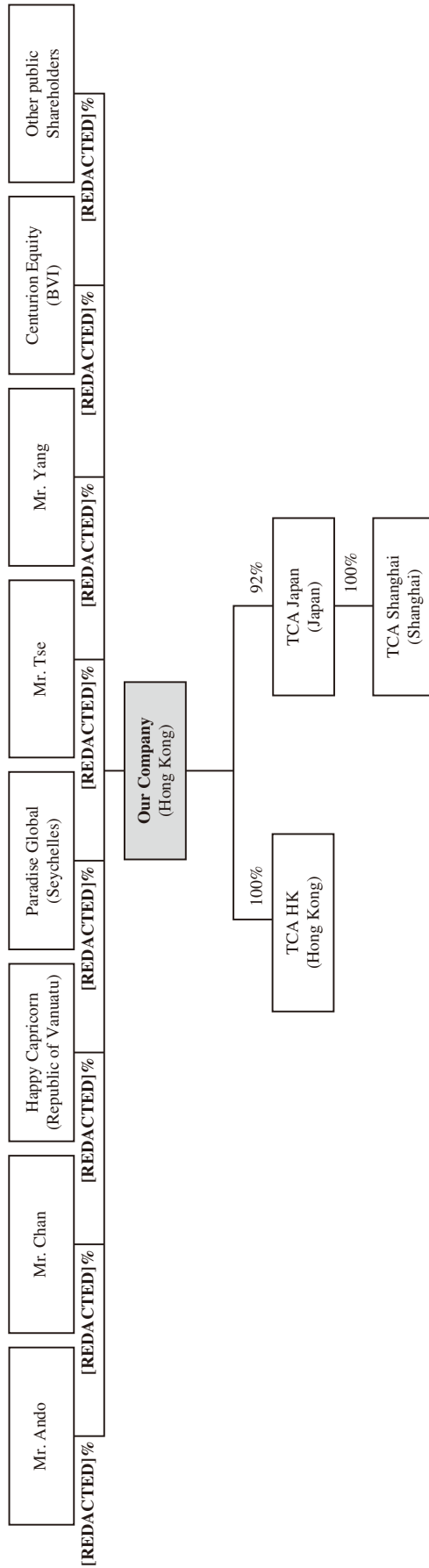
- The remaining 8% entire issued shares in TCA Japan were held as to 5% by Mr. Katsu and 3% by Mr. Yodo, respectively, all of which are class A shares. On May 14, 2018, TCA Japan has ceased to have a place of business in Hong Kong. Shareholders of class A shares do not have any voting right at the general meeting of shareholders of TCA Japan. Mr. Katsu is our executive Director and chief operating officer of our Group while Mr. Yodo is an external advisor and an Independent Third Party.
- The following table summarizes the brief details of each of our Company and the major operating subsidiaries of our Company as at the Latest Practicable Date:

	<u>Name of Group companies</u>	<u>Date of incorporation</u>	<u>Place of incorporation</u>	<u>Principal activities</u>
1.	Our Company	July 11, 2013	Hong Kong	Investment holding
2.	TCA HK	February 13, 2018	Hong Kong	Holding auctions
3.	TCA Japan	November 1, 2010	Japan	Holding auctions

- Please refer to Note 17 of the Accountant’s Report as set out in Appendix I to this document for further information of our subsidiaries.
- TCA Japan has a representative office in Taiwan.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group immediately upon completion of the [REDACTED] and the [REDACTED] (assuming the [REDACTED] is not exercised and taking no account of any Shares which may be taken up under the [REDACTED] and any Shares which may be allotted and issued pursuant to the exercise of options to be granted under the Share Option Scheme):



*Note:* All percentage shown in this chart are approximate figures.

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### OVERVIEW

We are one of the leading auction houses of Chinese and Japanese artworks in Hong Kong and Japan. We specialize in auctioneering a wide variety of artworks with emphasis on Chinese and Japanese artworks, including Chinese paintings and calligraphies, Chinese antiques and Japanese and Chinese tea wares.

According to the CIC Report, in 2017, we ranked:

- fourth among all auction houses with Chinese art auction business in Asia (excluding Mainland China) with a market share of 6.5%, in terms of transaction value from the Chinese art auction business;
- second and fifth among all auction houses with Chinese art auction business in Japan and Hong Kong with a market share of 26.8% and 4.4%, in terms of transaction value from the Chinese art auction business in Japan and Hong Kong, respectively; and
- fifth among all auction houses with Japanese art auction business both in Japan and Hong Kong with a market share of 3.1% and 1.4%, in terms of transaction value from the Japanese art auction business in Japan and Hong Kong, respectively.

With over seven years of operating experience in the Chinese and Japanese art auction industry, we have grown into a well recognized and trusted auction brand in Hong Kong and Japan, and successfully established the leading market positions, well-known brand name and strong competitiveness. According to the CIC Report, we are one of the top quality auction houses of Chinese and Japanese artworks in Hong Kong and Japan. We are well recognized by our customers for the high quality of auctioned artworks and the auction services we provide, which significantly contributes to the market recognition for our “Tokyo Chuo Auction” brand. We take pride in being an auction house with the ability to explore and introduce the historical and cultural significance as well as the commercial value of each artwork.

For our art auctions, we generally function as an agent by accepting artworks on consignment, cultivating and stimulating market demand through professional marketing activities and matching the needs of the consignors to those of the buyers through our actions. Our art auction revenue is mainly comprised of art auction commission which we collect from both buyers (or bidders) and sellers (or consignors) upon settlement of auction sales and are calculated as a percentage of the hammer price of artworks sold at our auctions. Following the sales at auction, after the buyer confirms the bidding for the artwork, we normally collect payment for the hammer price of the artworks plus the buyer’s commission, then deliver the artworks to the buyer after we collect the full payment and finally remit to the consignor the net sale proceeds after deducting the consignor’s commission and relevant fees for services we provided in relation to the auction catalog, insurance and other auction-related services.

For our artwork sales, we purchase artworks which we believe have appreciation potential and resell them at an appropriate time to make profit. We acquire artworks through participating in art auctions or directly through private sales.

For the years ended March 31, 2016, 2017, and 2018, our revenue was approximately HK\$138.6 million, HK\$148.0 million, and HK\$173.3 million, respectively. Our revenue increased from the year ended March 31, 2016 to the year ended March 31, 2018 at a CAGR of approximately 11.8% primarily

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attributable to increases in revenues from art auction and related business segment. During the Track Record Period, our profit attributable to owners of our Company was approximately HK\$18.5 million, HK\$30.8 million, and HK\$44.1 million, respectively. Please see the section headed “Financial Information — Description of certain items in the consolidated balance sheet” of this document for a discussion on our revenue growth.

Capitalizing on our profound knowledge of Chinese and Japanese artworks and the local market in Japan and Hong Kong, our long term relationship with customers, customer-oriented and culture-focused marketing activities and the support of our professional team, we believe that through our continuous efforts, our mission to become one of the internationally well-known auction houses with Chinese and Japanese art auction business can be achieved in the near future.

### COMPETITIVE STRENGTHS

We believe that the following competitive strengths have been the foundation of our growth, and expect that they will continue to support our leading position in the Chinese and Japanese artworks auction markets in Hong Kong and Japan.

#### **We are one of the leading auction houses of Chinese and Japanese artworks in Hong Kong and Japan with well-established brand name**

We are one of the leading auction houses of Chinese and Japanese artworks in Hong Kong and Japan. According to the CIC Report, in terms of transaction value from the Chinese art auction business in 2017, we ranked second and fifth among all auction houses with Chinese art auction business in Japan and in Hong Kong with a market share of 26.8% and 4.4%, respectively. According to the CIC report, in terms of transaction value from the Japanese art auction business in 2017, we ranked fifth among all auction houses with Japanese art auction business both in Hong Kong and Japan with a market share of 3.1% and 1.4%, respectively. Leveraging on our profound knowledge of the Chinese and Japanese artworks and the local market in Hong Kong and Japan, our long term relationship with customers, customer-oriented and culture-focused marketing and the support of our professional team, we provide our customers with customer-oriented and culture-focused auction services that cover key areas along the value chain of the Chinese and Japanese artwork industry, including sourcing, authentication, valuation, auction and sales of the artworks.

We established our auction business in Japan since 2010. Since then, we have grown into a well-known auction brand in Japan, focusing mainly on Chinese and Japanese artworks and throughout the years, developed a stable and diverse group of customers that includes well-known local and overseas collectors or families. Over the years, we have implemented various measures that we believe contributed to the advancement of the Chinese artworks and Japanese tea ware culture in Japan. For the years ended March 31, 2016, 2017 and 2018, we generated revenue of approximately HK\$100.0 million, HK\$84.9 million, and HK\$83.5 million from our operation in Japan, representing approximately 72.2%, 57.4% and 48.2% of our total revenue, respectively.

With our commitment to better serve as a bridge for the art cultural exchange between Hong Kong and Japan, in 2013, we expanded our business to Hong Kong and held our first auction in November 2014. For the years ended March 31, 2016, 2017 and 2018, we generated revenue of approximately HK\$38.6 million, HK\$63.1 million, and HK\$89.8 million from our operation in Hong Kong, representing approximately 27.8%, 42.6% and 51.8% of our total revenue, respectively.

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With over seven years of operating experience in the Chinese and Japanese art auction industry in Hong Kong and Japan, we have grown into a well recognized and trusted brand in Hong Kong and Japan. According to the CIC Report, we are one of the top quality auction houses of Chinese and Japanese artworks in Hong Kong and Japan. We are well recognized by our customers for the quality of auctioned artworks and the auction services we provide, which significantly contributes to the market recognition for our “Tokyo Chuo Auction” brand. According to the CIC Report, the Chinese art auction market is relatively concentrated in Asia (excluding the Mainland China), and the top five players collectively held 78.6% of the total market share in terms of transaction value in 2017. In terms of transaction value from Chinese art auction business in 2017, we ranked fourth among all auction houses with Chinese art auction business in Asia (excluding Mainland China) with a market share of 6.5%.

Our extensive experiences in sourcing and dealing with a wide diversity of artworks have also strengthened our brand name and reputation. We believe that, our well-established brand name and good reputation among customers not only enabled us to enjoy a high profile of network but also improved our ability to source a greater number of high quality artworks, and attract potential bidders to participate in our art auctions.

Going forward, with the leadership of our founder and the support of professional management team, along with our established brand name and leading position in the market, we expect sustainable growth in the foreseeable future, which in turn, would further consolidate and improve our market position in the Chinese and Japanese art auction industry.

**We have established a solid and expanding customer base and maintained long-term and stable relationships with customers supported by well-established network with proven ability to source premium artworks across Asia and attract more potential buyers to participate in our art auctions**

Through years of effort, we have successfully built a solid and expanding customer base. Our customers are generally comprised of artwork interested parties, including artworks artists, masters, experts, merchants, collectors, art galleries and museums. Our professional team as well as our historical and culture-focused marketing techniques have helped us build and maintain long-term and stable relationships with our customers. As of March 31, 2018, we had developed solid and stable business relationships with our top five customers ranging from 0.5 to 7 years. Revenue derived from our top five customers contributed approximately 17.6%, 18.2%, and 24.4% to our total revenue for the years ended March 31, 2016, 2017 and 2018, respectively.

We strongly believe that our abilities to develop a solid customer base and maintain long-term relationships with customers are essential to our success. Some of our long-term customers are well-known domestic and overseas collectors or families, who have a rich collection of high value artworks with well-maintained title and transaction records. They are able to consign or purchase artworks with high values. Our stable and long-term relationships with customers, especially those with strong supply of premium artworks, have enhanced our ability to source high-value Chinese and Japanese artworks on one hand, and raised public interest and confidence in our auction sales, which in turn attract more potential buyers to join our art auctions on the other hand. This also strengthens the coverage and penetration of our business network to source premium artworks across Asia.

We believe that our comprehensive sourcing channels contribute to facilitate business growth over the years since our inception and achieve the leading position in the Chinese and the Japanese art auction market in Hong Kong and Japan. Our founder, Mr. Ando has accumulated over ten years of experience in

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operating and managing the business of artwork trading and over seven years of experience in operation and management of artwork auction and established a solid network in this industry, providing us diversified sources and channels to discover Chinese and Japanese artworks. During the Track Record Period, we offered several categories of Chinese and Japanese artworks, including Chinese paintings and calligraphies, Chinese antiques (including but not limited to ceramics, Four Treasures of Study\* (文房四寶), displaying objects and jade objects), Japanese and Chinese tea wares and others. In particular, the following premium artworks have received great attention at auctions held by us in our auction operations:

- a Chinese calligraphy named “Imperial River Source Concise Script”\* (御製河源簡明語卷) by Yong Xing (成親王) from the Qing dynasty with a hammer price of HK\$15,000,000 in our first auction in Hong Kong held in November 2014;
- a Chinese classical painting and calligraphy named “Consonance between Pines and Spring”\* (泉聲松韻圖) by Wang Meng (王蒙) with a hammer price of HK\$151,000,000 in our 2017 Autumn Auction in Hong Kong, recording the highest hammer price among all his artworks sold by auction houses since 2015 and up to the material time, according to the CIC Report;
- a Chinese calligraphy named “Buddhist Monastery by Streams and Mountains”\* (蘭溪蘭若圖卷) by Ju Ran (巨然) in Northern Song dynasty with a hammer price of HK\$31,000,000 in our third anniversary auction in Hong Kong, recording the highest hammer price among all his artworks sold by auction houses since 2015 and up to the material time, according to the CIC Report;
- a Chinese calligraphy named “Grinding an Iron Pestle into a Needles”\* (鐵杵磨針圖) by Qiu Ying (仇英) with a hammer price of HK\$28,000,000 in our 2016 Autumn Auction in Hong Kong, recording the highest hammer price among all his hanging scroll artworks sold by auction houses since 2015 and up to the material time, according to the CIC Report; and
- a pair of imperial Tianhuang stone “Yongdan” seals of Nalan Xingde in Kangxi period (清康熙御製田黃用端鈕納蘭性德自用對印) with a hammer price of HK\$24,000,000.

We also strive to further expand our customer base by organizing more preview exhibitions with a focus on introducing and displaying the artworks that are to be sold in subsequent art auctions. We intend to organize more exhibitions and private gatherings to showcase the artwork of well-known artists as well as artworks of specific categories or with distinctive markets, cultural or historical values. By inviting our existing and potential customers and the public to participate in such events, market interest in our auction and demand of the consigned artworks at our auction can be cultivated and fostered.

### **Our professional as well as history-focused and culture-oriented marketing techniques along with quality services maximize the transaction price of our auctioned artworks**

Our commitment to adopting and utilizing professional as well as history-focused and culture-oriented marketing techniques and providing our customers with high quality services help us to understand their preference and demand more comprehensively, which effectively cultivate the market’s interest in our auctions. Apart from resorting to the traditional marketing methods, we seek to reach beyond the traditional communication boundaries to make use of the latest marketing techniques in our sales and marketing efforts to provide better experience for potential buyers. We produce and distribute self-designed auction catalogs for artworks consigned for our art auctions, which are available in both

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printed and digital forms and can be reviewed on our official websites [www.chuo-auction.com.hk](http://www.chuo-auction.com.hk) and [www.chuo-auction.co.jp](http://www.chuo-auction.co.jp). We also utilize social media such as WeChat, Weibo and Facebook to announce and publicize our art auctions, preview exhibitions and other marketing events and advertise key artworks consigned for our auctions. Furthermore, we organize artwork preview exhibitions to display the key artworks before art auctions so that potential buyers can attend such session to directly view and authenticate them. We also provide series of after sales services to key customers by visiting them regularly to understand their collections and demands so that we can constantly keep us abreast of the latest customer preference across the Chinese and Japanese artwork markets.

Moreover, we believe that our history-focused and culture-oriented marketing approach to enhance public’s awareness from an art and cultural perspective differentiates us from most of our competitors. During the Track Record Period, we hosted tea ceremonies named “One Encounter, One Chance — The Art of Tea Ceremony”\* (一期一會聽茶聞香) to promote the culture and history of tea wares, through which, our existing and potential customers and the public may appreciate the beauty to tea ware while learning the history and knowledge of tea culture. Moreover, we also arranged exhibitions for artworks of specific categories or artists to facilitate art appreciation. We believe our success in introducing the commercial and academic values of artworks, which allow our existing and potential customers to fully appreciate the commercial, historical and cultural values of artworks, thus creating greater interest in participating in our auctions. For instance, before the 2017 Autumn Auction in Hong Kong, we organized an exhibition to promote artworks from the Collection from the Japanese Calligraphy Museum of Wakayama\* (和歌山縣書道資料館). Through organizing such exhibition ahead of our auction which had greatly raised public interest in purchasing artworks displayed in the exhibition, the piece of artwork named “Free-copy of Calligraphy by Songdan”\* (行書臨「宋儋帖」) by Wang Duo (王鐸) was sold at HK\$20,000,000 at our auction, which was approximately 2.5 times of lower end of the estimated price. This is also the fifth highest hammer price among all Wang Duo’s artworks sold by auction houses since 2015 and up to the material time, according to the CIC Report.

From time to time, we hold art exhibitions of various themes, which serve as platforms that introduce the commercial, historical and cultural values of a variety of Chinese artworks to the public. Each of such theme art exhibition focused on introduction, display and auction of a specific or collecting category, that were sold in separate art auctions held by us in addition to our two principal Spring Auction and Autumn Auction. During the Track Record Period, we also participated and co-organized the following major artwork exhibitions with other organizations and museums:

- one exhibition named the International Exposition of Intangible Cultural Heritage and Ancient Art Macao (澳門 • 非物質文化遺產暨古代藝術國際博覽會) in April 2016;
- one exhibition with Kyoto Municipal Museum of Art with two sessions, namely, Ki-Seki — An Exhibition of Ancient Chinese Lacquerware from the Hayashibara Collection\* (漆跡 — 舊林原企業藏漆器展) and Kaku-Cho — Paintings by Wang Shimin, Wang Jian, Wang Hui, Wang Yuanqi, Wu Li and Yun Shouping\* (格調 — 抗古齋藏四王吳惲六家畫展) in June 2016;
- one cultural exhibition with Kyoto Municipal Museum of Art with two sessions, namely, Collection of Four Treasures of Study — Showcase of Fine Scholar’s Four Treasures of Study\* (文房聚珍 — 名家收藏文房清供) and Enchantment of Chinese Ink — Exhibition of Paintings of Wu Changshuo and Qi Baishi collected by Shuang Shi Cao Tang\* (墨妙 — 雙石艸堂藏吳昌碩齊白石書畫展) in April 2017; and
- one exhibition named “Gao Mai — Collections of Painting in Ming Dynasty by Collectors”\* (高邁 — 明代書畫名家收藏展) at Kyoto Municipal Museum of Art in April 2018.



## **BUSINESS**

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### **We have established effective risk management and internal control systems**

We have been maintaining and constantly improving our internal control and risk management systems for our business. We have adopted and implemented multiple measures at each stage of our business starting with sourcing high quality artworks from consignors. We have also established stringent authentication and valuation measures to screen, authenticate the artworks before placing them to our auctions. In particular, we strictly rely on expert opinions of our Internal Artwork Appraisal Team and/or External Artwork Appraisal Consultants to advise us on the authenticity and valuation of different types of artworks in accordance with our internal procedures, which allows our management to make well-informed and sound decisions. We have implemented other measures to tackle other major risks inherent in our business operations. Our internal control and risk management systems are also designed to cover procedures against bribery, corruption and money laundering activities. Please refer to the subsection headed “— Internet Control and Risk Management” for details of such measures.

We believe our risk management and internal control systems are effective and efficient in regulating our daily operation, as a result of which, we have successfully reduced various risks inherent to our operations, as it is evidenced that we did not recognize any material impairment losses for bad debts on the trade receivables during the Track Record Period.

Through the adoption and implementation of such policies and systems, and with our continuous efforts to upgrade and enhance such systems along with our business development and expansion, we can minimize or eliminate the interruption to our business and diversion of our management’s attention due to settling disputes with clients and non-compliance. We believe that our success in building customers’ confidence to our auction brand and auction services is contributed by our ability to maintain regulatory compliance and minimize risks related to our operations.

### **We have an experienced and stable management team led by a visionary founder**

We have an experienced and dedicated management team led by the chairman of our Board and an executive Director, Mr. Ando, who is also the founder of our Group. Mr. Ando has accumulated over 10 years of experience in operating and managing the business of artwork trading and over seven years of experience in operation and management of artwork auction. Mr. Katsu Bunkai, our executive Director and chief operating officer of our Group, has over six years of experience in operating the business of artwork trading and over six years of experience in operating and managing the auction. Mr. Sun, our executive Director, has over 30 years of experience in artwork trading and over 23 years of experience in auction operation.

Our experienced senior management team comprises of industry experts with valuable experience in the art industry. In particular, Mr. Wong Chi Ming, the assistant general manager of the Group, has accumulated nearly 12 years of experience in provision of auction business. For further details of our Director’s and senior management teams’ biographies, please refer to the section headed “Directors and Senior Management” in this document.

Our experienced senior management team has played a key role in operation of our Group and formation and execution of the development strategy of our Group. They provided us with in-depth industry and operational knowledge, and their management capability, supported by a strong execution team and management system, will continue to help us deliver sustainable growth in the future.



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### STRATEGIES

Our mission is to become one of the internationally well-known auction houses with Chinese and Japanese art auction business in the future. To achieve this mission, we have the following strategies:

#### **Further strengthening our leading position and market share in the Chinese and Japanese art auction market in Hong Kong and Japan, and enhance our brand recognition and awareness**

According to the CIC Report, the market size of Hong Kong’s Chinese art auction market in terms of transaction value slightly decreased from USD1,522.1 million in 2012 to USD1,388.0 million in 2017, representing a CAGR of -1.8%, whilst the average auction price of Chinese artworks showed a stable growth from USD107.2 thousand in 2012 to USD128.3 thousand in 2017. The total transaction value of Hong Kong’s Chinese art auction market is expected to reach USD1,682.3 million by 2022, representing a CAGR of 3.9% between 2017 and 2022. According to the CIC Report, the market size of Japan’s Chinese art auction market in terms of transaction value increased from USD124.9 million in 2012 to USD157.1 million in 2017, representing a CAGR of 4.7%. The total transaction value of Japan’s Chinese art auction market is expected to reach USD210.0 million by 2022, representing a CAGR of 6.0% between 2017 and 2022.

According to the CIC Report, the market size of Hong Kong’s Japanese art auction market in terms of transaction value slightly increased from USD135.8 million in 2012 to USD170.7 million in 2017, representing a CAGR of 4.7%. The total transaction value of Hong Kong’s Japanese art auction market is expected to reach USD218.8 million by 2022, representing a CAGR of 5.1% between 2017 and 2022. The market size of Japan’s Japanese art auction market in terms of transaction value increased from USD51.4 million in 2012 to USD67.4 million in 2017, representing a CAGR of 5.6%. The total transaction value of Japan’s Japanese art auction market is expected to reach USD93.1 million by 2022, representing a CAGR of 6.7% between 2017 and 2022. We plan to further strengthen our leading position and market share in Chinese and Japanese art auction market in Hong Kong and Japan by way of the following aspects:

*Strengthen brand image of the Group, expand seller and buyer network and build customer confidence for our brand.* We plan to further invest in our marketing activities emphasizing on culture exchange embodied in the sourcing, authentication, valuation, sales and auction of the Chinese and Japanese artworks to further promote our brand image, strengthen our communication with customers and expand customer base to high quality artwork interested parties. As we believe that the brand image of an auction house relies heavily on the promotion of historical and cultural element of artworks, we have traditionally paid attention to the historical and cultural aspects of artworks, which contributed to enhance the awareness and understanding of an artwork. Going forward, we will continue to uphold the core value of “promoting culture and valuing communication” as the philosophy of the Group in carrying out our business in the future. To this end, we strive to organize more cultural events and activities to enhance the Group’s brand image and build trust and confidence among existing and expanding customer base.

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During the Track Record Period, we constantly held well-recognized marketing and promotional activities focusing cultural exchanges. From time to time, we held special exhibition events in Kyoto Municipal Museum of Art\*\* (京都市美術館) which were tailor-made exhibitions to promote different themes of premium artworks with an aim to raise customers’ interest in those artworks before our auctions. Going forward, leveraging on the wealth of knowledge that we have accumulated in organizing these various special events, we plan to hold more large-scale, collaborative special events to constantly raise brand awareness among artwork interested parties. We expect these cultural exchange activities will enable us to further strengthen our brand recognition, broaden and extend the breadth and depth of relationship with our existing customers and capture the growth opportunities with potential customers.

*Devote more resources in marketing and promotional activities.* We intend to increase the number of sourcing activities, preview exhibitions and participate in more exhibition events to enhance our brand awareness. We intend to further enhance our brand recognition by devoting more resources in marketing and promotional activities, including traditional advertising channel, print and television media, as well as social network activities and joint sponsored events. We plan to add more online advertisements in search engines, like Google and Yahoo. Apart from online media, we will also expand our marketing coverage to television, newspaper, magazine and billboard. Further, we intend to develop more significant resources to the development, support and maintenance of mobile apps which aims to (i) promote our continuous marketing activities and events, preview exhibitions and auctions, (ii) provide a channel to enable us to have constant contact with our customers; and (iii) enhance public’s awareness of our auction brand so as to attract potential customers to join our auctions. We believe such additional marketing and promotional activities will help us maintain our market share in the Chinese and Japanese art auction markets in Hong Kong and Japan.

*Organize activities and events to consolidate relationship with exclusive customers.* We strive to continue to hold regular activities with our exclusive customers, as we believe face to face communication is the most direct and sincere way in consolidating relationships with our exclusive customers. We plan to hold an annual exchange tour for our exclusive customers by inviting them to Japan for seminars and gatherings. We also plan to enhance our customer services to major customers by paying visit to them on a regular basis. We believe through frequent contacts with our customers, we are able to understand more about their needs and preferences, source suitable artworks for them and attract them to attend our auctions.

### **Diversifying our business scope by venturing into the field of contemporary artwork and jewelry**

Building on our experience of successfully sourcing, offering and selling Chinese and Japanese artworks, we aspire to diversify our business scope into the field of contemporary artwork and jewelry. With the increasing emergence of talented contemporary artists, the supply of contemporary art keeps renewing and the number of collectors continues to grow. According to the CIC Report, the global auction value for contemporary art ranged from USD2.0 billion to USD3.0 billion in 2017 and the auction value for contemporary art is expected to grow with a CAGR of approximately 5% and achieve an amount ranging from USD2.6 billion to USD3.8 billion by 2022. The appealing appearance and scarcity make jewelry a popular category ever since the rise of auction market. Recently, collectors come to jewelry auction hubs, like Geneva, Hong Kong and New York, to bid for and purchase precious jewelries. According to the CIC Report, the global auction value for jewelry achieved an amount ranging from USD1.5 billion to USD2.0 billion in 2017 and the auction value for the global jewelry auction is expected to increase to an amount ranging from USD1.7 billion to USD2.2 billion in 2022, with a CAGR of approximately 2% between 2017 and 2022.

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In venturing into the field of contemporary artworks, we plan to set up a contemporary artwork department. In March 2018, Mr. Zhao Rui, an expert in the contemporary artwork industry, joined us as the general manager of the painting and calligraphy department of our Group. Prior to joining us, he worked in the State Administration of Cultural Heritage of PRC and one of the globally leading auction houses, and accumulated years of experience in sourcing, authentication and valuation of contemporary artworks. Leveraging on Mr. Zhao’s profound knowledge and extensive network in the fields of contemporary ink artwork, we believe we will be able to establish the contemporary artwork department in a timely manner as planned. For further details of Mr. Zhao’s biography, please refer to the subsection headed “— Working team and experts for authentication and valuation of artworks” in this document. We believe that with the establishment of the contemporary artwork department in our Group, we will be well-positioned to discover and source premium contemporary artwork and bring more customers who are interested in contemporary artworks to us. In addition, to achieve this expansion plan, we target to add additional sessions in each of the Spring Auction and Autumn Auction held in Hong Kong and Japan for contemporary artworks.

We also plan to set up a new department for jewelry and intend to add extra sessions in each of the Spring Auction and Autumn Auction held in Japan and Hong Kong for jewelry. We believe together with our continuous effort in actively exploring contemporary artworks and jewelry, our aim to expand in the fields of contemporary art and jewelry will bring about higher revenue to the Group.

### **Recruiting high caliber managers and experts and attract, motivate and retain quality employees to strengthen both the management and operating teams with a view to support the sustainable growth**

Our capacity to maintain our leading position and diversifying our businesses depends on our ability to recruit high caliber managers and experts. We will continue to devote resources to recruit, develop and retain qualified talents in various positions in order to expand and optimize our overall department structure. We also aim to adopt the Share Option Scheme to incentivize and reward participating employees as well as encourage them to work towards enhancing the value of the Group and its shares for the benefit of the Group and our Shareholders as a whole. We will also consider creating promotions to cultivate and retain key employees.

Further, we will seek to improve our comprehensive internal and external staff training systems. To this end, we aim to provide promising career development opportunities through outstanding on-the-job training with a focus on auction operation knowhow, customer service techniques and artworks authentication and valuation abilities, through which our employees could further improve their skill sets. In addition, we will arrange department heads to attend external trainings and participate in relevant professional academic society activities. To attract more professionals in the art industry to join our Group, we have established an annual scholarship in the Department of Calligraphy of Daito Bunka University in September 2014 and sponsored the Faculty of Fine Art of Tokyo University of the Arts, Japan in July 2016, to reward excellent talents in the Department of Calligraphy and promote art education in universities. Going forward, we will strengthen our advertisements and promotional activities in universities and colleges in order to attract more high quality employees. We believe such plans targeting our employees can strengthen both the management and operational teams for sustainable growth.

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### **Targeting to expand business footprint to other potential markets with an aim to establish and enhance brand image and brand influence in other major Asian cities and the global market**

According to the CIC Report, the market size of the global art auction market in terms of transaction value increased from USD21.7 billion in 2012 to USD24.5 billion in 2017, representing a CAGR of 2.5%. Driven by the steady economic development and increase of HNWI and increasing popularity of artwork collection, the global art auction market is expected to grow steadily, with total transaction value growing to USD27.8 billion in 2022, representing a CAGR of 2.6% between 2017 and 2022. To support our expansion in order to capture the growth opportunities in the global artwork markets, we seek to continue to strengthen both the breadth and the depth of our customer network by establishing more representative offices in other potential markets worldwide. Through these new representative offices and leveraging on the resources such platforms provide, we seek to hold more preview exhibitions of artworks and organize customized sourcing and marketing activities that could attract local markets' awareness to our brand and allow us to source, offer or sell artworks that best meet the prevailing local market's preferences.

As part of our effort to expand in the global artwork auction markets, we plan to set up a new representative office in each of Beijing and California. As Beijing is the capital of China, and has been rooted with strong cultural values, we believe the establishment of a representative office in Beijing can attract more PRC customers who are interested in collecting Chinese artworks. According to the CIC report, Mainland China had the largest market share in 2017, capturing approximately 70% of total transaction value of the global Chinese art auction market. In addition, we intend to set up a representative office in California, a major gathering hub in the United States for overseas Chinese and Japanese. According to the CIC report, the market size of the U.S.'s Chinese art auction market in terms of transaction value achieved approximately US\$250 million in 2017, and is expected to further increase to US\$330 million in 2022 representing a CAGR of 5.7%. We believe that the set up of our representative offices in Beijing and California can enable us to extend our business network and geographical presence in other cities with developed markets, so that we may expand our sourcing more high quality Chinese artworks and attract more potential international customers to attend our auctions.

In addition, to attract more potential customers, we target to increase the number of sourcing and marketing activities in other major Asian cities. We plan to hold two preview exhibitions in each of Shanghai, Beijing, Xiamen, Taiwan and Hong Kong every year. Further, we plan to increase the overall number of sourcing events, including artwork special exhibitions or tea ceremonies focusing on exhibition of tea wares and tea taste and appreciation and small-scale appraisal fairs where customers can buy and sell artworks on this platform. We target to hold more sourcing events in Asia cities, for instance, two sourcing events annually in each of Taiwan and Hong Kong, one sourcing event annually in each of Malaysia and Singapore, and three more sourcing events in Japan annually. We will continue our commercial advertisement via television, magazine, newspaper and online platforms to attract potential customers. Apart from organizing a wide diversity of sourcing and marketing activities by ourselves, we also seek to attend art-related events held by other organizations more frequently. As a whole, we consider these plans can expand our geographical presence in other major Asian cities, extend our business network, deepen our market penetration and enhance our brand image as well as brand influence in Asia.

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### OUR BUSINESS

We primarily operate in two main business segments: (i) the art auction and related business segment; and (ii) the artwork sales segment. Artworks of our focus include Chinese paintings and calligraphies, Chinese antiques (including but not limited to ceramics, Four Treasures of Study\* (文房四寶), displaying objects and jade objects), Japanese and Chinese tea wares and others. The following table sets out the details of our revenue, gross profit and gross profit margin by business segment for the periods indicated.

	Year ended March 31,					
	2016		2017		2018	
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
<b>Revenue</b>						
Art auction and related business <sup>(Note)</sup>	133,251	96.1	137,588	92.9	164,596	95.0
Artwork sales	5,362	3.9	10,460	7.1	8,670	5.0
<b>Total</b>	<b><u>138,613</u></b>	<b><u>100.0</u></b>	<b><u>148,048</u></b>	<b><u>100.0</u></b>	<b><u>173,266</u></b>	<b><u>100.0</u></b>
<b>Gross Profit</b>						
Art auction and related business	96,166	98.8	106,144	99.0	131,799	99.6
Artwork sales	1,130	1.2	1,024	1.0	520	0.4
<b>Total</b>	<b><u>97,296</u></b>	<b><u>100.0</u></b>	<b><u>107,168</u></b>	<b><u>100.0</u></b>	<b><u>132,319</u></b>	<b><u>100.0</u></b>
<b>Year ended March 31,</b>						
	<b>2016</b>		<b>2017</b>		<b>2018</b>	
<b>Gross Profit Margin (%)</b>						
Art auction and related business		72.2		77.1		80.1
Artwork sales		21.1		9.8		6.0
		<u>70.2</u>		<u>72.4</u>		<u>76.4</u>

*Note:* Under this segment, in addition to commissions collected from the consignors and buyers of our auctions, we also recorded revenue generated from private sales arranged by us on behalf of the consignors. For any artwork that is not sold during our auction, we may either return the artwork to the consignor, or put it up for private sales on behalf of the consignor. We act as an agent by matching the needs of consignors to those of buyers by private sales. In return, we collect commissions which are determined through negotiation with both buyers and sellers, usually representing the difference between the purchase price paid by the buyers and the selling price as pre-agreed by the sellers and us. During the Track Record Period, our revenue generated from private sales was approximately HK\$0.5 million, HK\$20,000, and HK\$4.3 million, respectively.

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The table below sets forth a breakdown of our revenue categorized by geographical area for the periods indicated:

	<b>Year ended March 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
<b>Revenue</b>			
Hong Kong	38,575	63,117	89,757
Japan	100,038	84,931	83,509
<b>Total</b>	<b>138,613</b>	<b>148,048</b>	<b>173,266</b>

### **Art Auction And Related Business Segment**

#### *Overview of the Art Auction and Related Business Segment*

Under our art auction and related business segment, operating under the “Tokyo Chuo Auction” brand, we primarily engage in art auction operations acting as an agent by sourcing and accepting artworks on consignment. We foster market demand through professional, history-focused and culture-oriented marketing techniques. We then match the needs of consignors to those of buyers at art auctions. We collect commissions as our revenue from both consignors and buyers upon settlement of art auction sales based on the hammer price. In addition, we also charge the sellers additional fees upon settlement of art auction sales for the services we provided to them in relation to the auction catalog, insurance and other auction-related services, the amount of which is determined based on factors such as the hammer price of the consigned artwork and the coverage size of the artwork in the auction catalog and through negotiation with the sellers.

We believe we have a distinguished edge over our competitors in terms of our abilities to secure a supply of premium artworks and to maintain good and long-term relationship with collectors and sellers. Leveraging on our professional as well as history-focused and culture-oriented marketing techniques along with quality services and support of our experienced professional and management team, we have successfully established a leading market position in the Chinese and Japanese art auction market in Hong Kong and Japan. According to the CIC Report, in 2017, we ranked (a) fourth among all auction houses with Chinese art auction business in Asia (excluding Mainland China) with a market share of 6.5%, in terms of transaction value from the Chinese art auction business, (b) second and fifth among all auction houses with Chinese art auction business in Japan and Hong Kong with a market share of 26.8% and 4.4%, in terms of transaction value from the Chinese art auction business in Japan and Hong Kong, respectively, and (c) fifth among all auction houses with Japanese art auction business both in Hong Kong and Japan with a market share of 3.1% and 1.4%, in terms of transaction value from the Japanese art auction business in Japan and Hong Kong, respectively.

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For years ended March 31, 2016, 2017, and 2018, the revenue of our art auction and related business segment was approximately HK\$133.3 million, HK\$137.6 million, and HK\$164.6 million, respectively. The table below sets forth a breakdown of art auction revenue by category for the periods indicated.

	Year ended March 31,					
	2016		2017		2018	
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
<b>Art auction and related business revenue</b>						
Chinese paintings and calligraphies	68,787	51.6	86,926	63.2	101,038	61.4
Chinese antiques	44,688	33.5	37,098	27.0	42,602	25.9
Japanese and Chinese tea wares	10,635	8.0	7,977	5.8	13,654	8.3
Others	9,141	6.9	5,587	4.0	7,302	4.4
<b>Total</b>	<b>133,251</b>	<b>100.0</b>	<b>137,588</b>	<b>100.0</b>	<b>164,596</b>	<b>100.0</b>

The table below sets forth the geographical breakdown of the number of auction sessions for the periods indicated.

	Year ended March 31,		
	2016	2017	2018
<b>Number of auction session</b>			
Hong Kong	2	2	2
Japan	4	2	2
<b>Total</b>	<b>6</b>	<b>4</b>	<b>4</b>

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Set out below are certain data and statistics in connection with our auction transactions during the Track Record Period:

	Auction transactions in		
	2016	Year ended March 31, 2017	2018
<b>Aggregate hammer price</b> <i>(HK\$'000)</i>			
Chinese paintings and calligraphies	333,848	417,384	468,701
Chinese antiques	232,282	176,417	186,879
Japanese and Chinese tea wares	50,557	44,487	40,367
Others	<u>35,641</u>	<u>9,278</u>	<u>43,073</u>
<b>Total</b>	<u><u>652,328</u></u>	<u><u>647,566</u></u>	<u><u>739,020</u></u>
<b>Range of hammer price</b> <i>(HK\$'000)</i>			
Chinese paintings and calligraphies	1.1 to 16,800.0	3.6 to 31,000.0	3.5 to 151,000.0
Chinese antiques	1.1 to 16,811.6	3.6 to 14,354.0	3.5 to 8,000.0
Japanese and Chinese tea wares	1.1 to 8,405.8	3.6 to 3,373.2	3.5 to 1,200.0
Others	1.1 to 7,112.6	3.6 to 1,256.0	3.5 to 1,979.5
<b>Number of auction lots (or sets of items) offered</b>			
Chinese paintings and calligraphies	3,593	3,449	3,501
Chinese antiques	2,632	1,782	2,267
Japanese and Chinese tea wares	966	816	939
Others	<u>727</u>	<u>358</u>	<u>318</u>
<b>Total</b>	<u><u>7,918</u></u>	<u><u>6,405</u></u>	<u><u>7,025</u></u>



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	Auction transactions in		
	2016	Year ended March 31, 2017	2018
<b>Number of auction lots (or sets of items) sold</b>			
Chinese paintings and calligraphies	2,299	2,039	1,884
Chinese antiques	1,547	1,081	1,300
Japanese and Chinese tea wares	626	513	548
Others	<u>313</u>	<u>146</u>	<u>206</u>
<b>Total</b>	<b><u>4,785</u></b>	<b><u>3,779</u></b>	<b><u>3,938</u></b>
<b>Transaction rate</b> <i>(Note)</i>			
Chinese paintings and calligraphies	64.0%	59.1%	53.8%
Chinese antiques	58.8%	60.7%	57.3%
Japanese and Chinese tea wares	64.8%	62.9%	58.4%
Others	<u>43.1%</u>	<u>40.8%</u>	<u>64.8%</u>
<b>Average</b>	<b><u>60.4%</u></b>	<b><u>59.0%</u></b>	<b><u>56.1%</u></b>

*Note:* Transaction rate is calculated by dividing the number of auction lots (or sets of items) sold by number of auction lots (or sets of items) offered.

The increase in the aggregate hammer price of our auctioned artworks for the year ended March 31, 2018 to approximately HK\$739.0 million from approximately HK\$647.6 million for the year ended March 31, 2017 was mainly due to the sale of certain rare and high value artworks in our 2017 Autumn Auction in Hong Kong.

The decrease in the number of auction lots offered for the year ended March 31, 2017 to 6,405 from 7,918 for the year ended March 31, 2016 was mainly due to that we held additional auctions in Japan for the year ended March 31, 2016 in addition to the two principal Spring Auction and Autumn Auction in each of Hong Kong and Japan.

Notwithstanding the decrease in the number of auction lots sold for the year ended March 31, 2017, the aggregate hammer price for the year ended March 31, 2017 remained almost the same as that for the year ended March 31, 2016 mainly because of the sale of certain rare and high value artworks in our auctions held during the year ended March 31, 2017.

The transaction rate remained relatively stable for the years ended March 31, 2016, 2017 and 2018 and is within the range of the prevailing market range, according to the CIC Report.

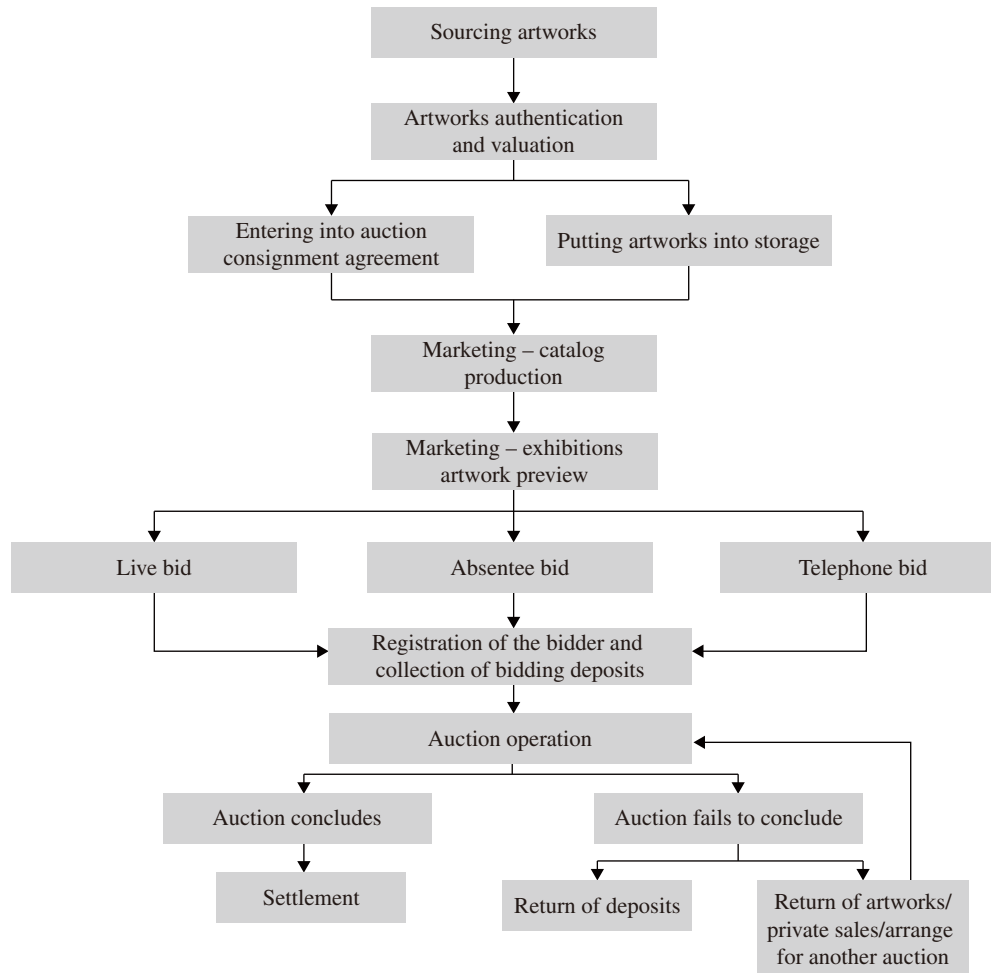
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### *Main Procedures of Art Auction*

The following chart sets out the main procedures of our art auction operations.



### *Sourcing*

We source artworks mainly through private contact with existing and potential customers, organizing public events as well as participating in private art-related events. Further, some potential walk-in consignors may approach us from time to time directly for items proposed to be offered for sale at our auctions. We maintain good and long-term relationships with collectors and sellers. In addition, from time to time, we attract potential customers by organizing special artwork exhibitions or events to showcase tea wares through traditional tea ceremonies. Through these events, we may also provide complimentary authentication services. We also actively contact and pay visit to our key customers periodically and attend art-related public or private events, such as forums and exhibitions. Through these means, we have developed a network of existing and potential customers in order to secure a supply of stable and premium artworks prior to art auctions.

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Furthermore, we have entered into cooperation agreement with artwork interested parties who have years of experience in collecting or conducting research on Chinese and Japanese artworks. Under the cooperation agreement, the relevant artwork interested party agreed to provide consultancy services to us relating to the provision of market data and price trend, connecting potential customers with us, as well as providing artworks to our auctions. We are not obliged to accept artworks sourced by the relevant artwork interested party and we will not guarantee to put their recommended artworks on auction sale.

### *Preliminary authentication and valuation*

After sourcing the suitable artworks for our auctions, we proceed with the preliminary assessment, selection, authentication and valuation of the artworks in accordance with our internal control procedures on artwork authentication and valuation. Details of our internal control procedures on artwork authentication and valuation are set out in the subsection headed “— Internal Control and Risk Management — Authentication and Valuation of Artworks” below. If we consider the artwork is suitable to put on auction sale, we will discuss and reach a consensus with the consignor on the auction reserve price (if any). Once both of us have agreed to the preliminary auction reserve price (if any), we will proceed to the signing of the auction consignment agreement with the consignor.

### *Auction consignment agreement*

Based on the positive results of our preliminary authentication and valuation, we request the seller to enter into an auction consignment agreement with us, according to which the consignor confirms and agrees to all the terms and conditions stated in the Auction Rules before putting the consigned artwork on our art auction. Major terms of the auction consignment agreement include the name, description, current status and source of the artworks, the preliminary auction reserve price (if any) and the seller’s commission rate.

In accordance with the terms of the auction consignment agreement entered into between the seller and us, and the Auction Rules, the seller agrees to appoint us, and we agree to be appointed, to be the exclusive agent of the seller to sell the artwork for auction as listed in the auction consignment agreement. We request seller to give certain unconditional and irrevocable title warranties to us, precluding us from liability in relation to the authenticity and ownership of the relevant artworks. In relation to the consigned artwork, the seller unconditionally and irrevocably represents and warrants to us and the buyers that, the seller is the owner of the consigned artwork or a joint owner of the consigned artwork acting with the permission of the other co-owners or, if the seller is not the owner or a joint owner of the consigned artwork, has the permission of the owner to sell the consigned artwork, or the right to do so in law. Further, the seller has the right to transfer ownership of the consigned artwork free from encumbrances or claims. The auction consignment agreement contains a disclaimer which states that we have no obligation to investigate the ability of a buyer to settle the hammer price and does not assume any responsibility for the buyer’s failure to settle such amounts in time or fully settle such amounts.

Upon signing of the auction consignment agreement, we will take possession of the consigned artwork, which is kept, in our storage facilities before the auction is held. The auctioned article that has been inspected and considered satisfactory by us will be automatically covered by the insurance taken out by us. Pursuant to the auction consignment agreement, the seller agrees to indemnify and hold us and the buyer harmless from and against any and all the claims, actions, damages, losses, liabilities and expenses (including but not limited to legal fees) relating to any of the breach of any of the seller’s agreements, representations, warranties and/or undertakings under the Auction Rules or the relevant auction

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consignment agreement. During the Track Record Period, we have not experienced any material dispute with or claim brought by our consignors in connection with damage or loss of the consigned artworks.

### *Final authentication and valuation*

A final authentication and valuation of artworks will be conducted by our Internal Artwork Appraisal Team and/or the External Artwork Appraisal Consultants on artworks proposed for auction after we take possession of such consigned artworks. The External Artwork Appraisal Consultants provide a second opinion on certain consigned artworks as and when appropriate to make assessment of its cultural and historical values, verify its scarcity, and determine whether particular artworks of high value would be put on auction sale by confirming its authenticity. We do not charge sellers for our authentication work or issue any authentication reports.

### *Marketing*

We conduct various marketing and promotional activities before holding auctions. We make use of the internet and social media to distribute marketing materials and publish results of art auctions. Our major marketing and promotional activities include:

- *Auction catalog.* We produce and distribute self-designed auction catalogs for artworks consigned in our art auctions. The auction catalogs contain the photo, auction lot number, period, descriptions and the estimated price range of each artwork, together with an introduction of the artist, if any. A guide for bidders, payment methods, conditions of sale and bidder registration and bidding forms are also included in the auction catalogs. Our auction catalogs are also available in digital form, which can be viewed on our websites at [www.chuo-auction.com.hk](http://www.chuo-auction.com.hk) and [www.chuo-auction.co.jp](http://www.chuo-auction.co.jp).
- *Advertisement promotion.* We utilize social media such as WeChat, Weibo and Facebook to invite potential buyers to download our electronic auction catalogs, remind potential buyers of the date of our art auctions or preview exhibitions, distribute marketing materials, and announce the results of auctions of certain artwork articles. Further, we launch our own seasonal magazine to introduce artworks we have sourced. We also publish advertisements on newspapers, art magazines and television commercials to promote our brand and cultivate market interests to our art auctions.
- *Preview exhibition.* We organize artwork preview exhibitions before art auctions. Such preview is open to public and no entrance fee is charged. It offers potential buyers who are interested to participate in our art auctions and purchase artworks opportunities to directly view and authenticate the artworks. Preview exhibition for our auctions in Hong Kong and Japan will usually last for two to four days.

### *Auction*

During the Track Record Period, all of our auctions were held in hotels. Potential buyers who are interested in bidding are required to enroll for participation in our art auctions. We normally require a potential buyer to provide identification document, complete a bidder registration form and pay a bidding deposit. By signing the bidder registration form, the bidder confirms and agrees to all the conditions stated in the conditions of sale, the disclaimer clause on our liability to any canceled art auctions or

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unsuccessful bidding on the auction lots, the date of settlement and the buyer's commission. Under the conditions of sale, by participating in bidding, the bidder is taken to understand and confirm that under all circumstances, we give no representation, warranty or guarantee or assume any liability of any kind in relation to any statement made, or information given, by it or its representatives or employees, about any consigned artwork; and the merchantability, fitness for a particular purpose, description, size, quality, condition, attribution, authenticity, rarity, importance, medium, provenance, exhibition history, literature, or historical relevance of any consigned artwork. After completing the abovementioned steps, we then deliver a bidding paddle to the bidder.

In situation where a bidder is unable to attend the art auction in person, the bidder may bid in writing or on the telephone and submit an absentee bids registration form or a telephone bidding registration form to appoint their representatives to bid on behalf of them. By signing the absentee bids registration form or the telephone bidding registration form, the bidder in absence agrees with the terms and conditions under the relevant registration forms.

During an art auction, we use video display board and currency exchange display board to show information of the auctioned artworks, such as lot number, photos or equivalent foreign currency. When an artwork is sold, we sign a sales confirmation letter with the buyers, which mainly sets out title of auction lot, hammer price and buyer's commission rate at the auction site and arrange for settlement.

If the bidding price is lower than the auction reserve price (if any) or the lower end of the estimated price range (where applicable) or if there is no one bidding for such artwork, the auction fails to conclude. Under such circumstance, we will return the artwork to the consignor, arrange for such artwork to enter another auction upon the consignor's request or put it up for private sales on behalf of the consignor upon acceptance of the consignor's new consignment. We also return bidding deposit or the remaining balance thereof (as the case may be), without interest, to unsuccessful bidders.

### *Settlement*

Following the sale at the auctions, we will collect purchasing price of the artwork (hammer price plus buyer's commission, but excluding the paid bidding deposit, if applicable) and remit net sale proceeds (hammer price excluding seller's commission, consignor advances with accrued interest (if any) and relevant fees for services we provided in relation to the auction catalog, insurance and other auction-related services, where applicable) to the consignor.

As part of our internal control policy, we require the payment to be made to us within seven days after the auction day. We accept various payment methods, including bank transfer, checks, cashier order, cash and credit card payment. Normally, when the payment is fully settled and received by us, buyers can collect the auctioned artworks from us. After the hammer has struck, the fee in relation to the auction catalog delivery, insurance and other related fees will be borne by the seller, which will be deducted before we pay the net proceeds to the sellers to the total purchase price of the artworks.

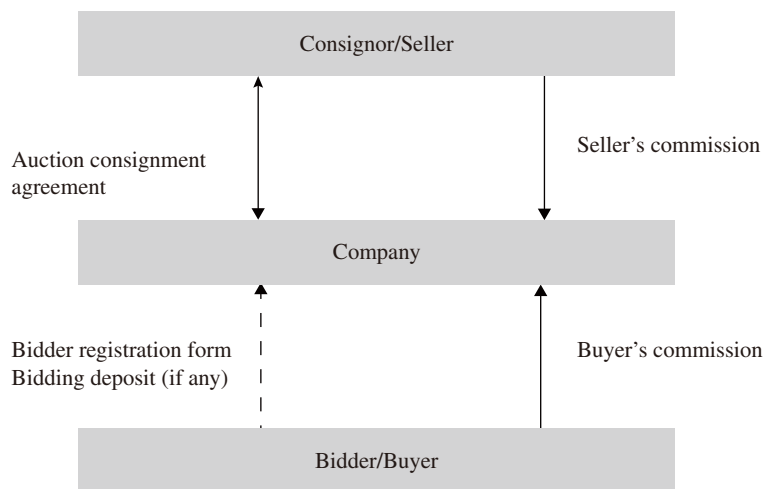
To reduce the risk of buyer's default of payment, we generally do not grant credit or allow installment payment. If a buyer fails to settle the purchase price or collect the artworks punctually, we will chase for the buyer's commission on our behalf and the hammer price on the seller's behalf. However, we may sometimes assist parties to arrange for installment payment for some of our premium customers. During the Track Record Period, we did not recognize any material impairment losses for bad debts on the trade receivables.

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Normally, we deliver an artwork to its buyer after we have received full payment for the artwork. Net sale proceeds (being the hammer price after deducting the seller’s commission, consignor advances with accrued interest (if any) and relevant fees for services we provided in relation to the auction catalog, insurance and other auction-related services, where applicable) will subsequently be paid to the seller. Please see the subsection headed “— Internal Control and Risk Management — Settlement” and the section headed “Risk Factors — Our results of business operations could be adversely affected by customer’s default in making payment in due course.”. Further, pursuant to our risk management policy, we generally do not make any payment to the consignor before the full amount of the purchase price for the artwork is received by us. However, on certain occasions, we may make payment to consignors who are our premium customers prior to receiving full payment.

### *Pricing*

We charge commissions from both consignors and buyers for the auction services we provide. The following chart sets out the main procedures of pricing.



The seller’s and buyer’s commission are stated clearly on our auction consignment agreement and conditions of sale, respectively. We normally charge the seller commissions based on the hammer price of the consigned artworks. During the Track Record Period, our average commission rate from the sellers (being the total commission from the sellers divided by the aggregate hammer price of the auctioned artworks) for the years ended March 31, 2016, 2017 and 2018 were 6.7%, 6.4% and 6.6%, respectively. On the other hand, we normally charge the buyer commissions based on the hammer price of the sold artworks, with the commission rate decreasing progressively with higher amount of hammer price of the artwork. During the Track Record Period, our average commission rate from the buyers (being the total commission from the buyers divided by the aggregate hammer price of the auctioned artworks) for the years ended March 31, 2016, 2017 and 2018 were 12.0%, 13.2% and 13.5%, respectively. We may grant favorable commission rate to selected customers with long-term relationship and good credit history and customers who wish to purchase artworks of high value. As a result, during the Track Record Period, our average art auction commission rate, which is derived by dividing (i) the auction commission income we recognized for a specific year or period by (ii) the aggregate hammer price of auctioned artworks during the same year or period, amounted to 18.7%, 19.6%, and 20.1%, respectively. For details of our accounting policy on revenue recognition, please see the section headed “Financial Information — Revenue Recognition” of this document.

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In accordance with the conditions of sale, upon receiving full amount of the purchase price for the artwork, we will pay the net sale proceeds, being the hammer price after deducting the seller’s commission and relevant fees for services we provided in relation to the auction catalog, insurance and other auction related service to the consignor within 35 business days after the auction date. We will only arrange delivery of artworks after we receive full payment of purchase price.

### *Consignor Advances*

According to our auction consignment agreement, we have no obligation to make payment to the consignor prior to receipt by us of the full purchase price of the artwork. However, during the Track Record Period, in order to attract appealing artworks and retain premium customers, upon request, we provided certain consignors with consignor advances carrying interest accruing on such consignor advances at the rate of 1%, the amount of which was generally determined through negotiation between us and the consignor. After receiving full payment of the purchase price, we paid the net sale proceeds (i.e. hammer price excluding (i) the relevant consignor advances with interests payable; (ii) seller’s commissions; and (iii) relevant fees for services we provided in relation to the auction catalog, insurance and other auction-related services) to the consignor. In case that we failed to sell the consigned artwork at our auction, we returned the artwork to the consignor after obtaining full repayment of the consignor advances with accrued interest.

As of March 31, 2016, 2017 and 2018, the aggregate amount of consignor advances amounted to approximately HK\$7.6 million, Nil and HK\$15.2 million, respectively. During the Track Record Period, we have not encountered any material defaults from consignors in the repayment of consignor advances. During the Track Record Period, we have not made any provisions for consignor advances. Please see the section headed “Risk Factor — There is no assurance that we will fully recover consignor advances, which may have a material and adverse effect on our business, financial condition and results of operations.” of this document.

### *Seasonality*

In line with the auction industry practice, we organize two principal auction sales each year in both Hong Kong and Japan, namely, the Spring Auction and the Autumn Auction. In Japan, the Spring Auction takes place between February and March each year while the Autumn Auction takes place in September each year. In Hong Kong, the Spring Auction takes place in May each year while the Autumn Auction takes place in November each year. As our Group usually offers larger number of auction lots and puts artworks of higher value to our Autumn Auction, during the Track Record Period, our auction income generated from sales of artworks in the Autumn Auction accounted for a relatively larger portion of our annual auction income compared with that of sales of artworks in the Spring Auction. Please see the section headed “Risk Factors — Our results of business operations are subject to seasonal fluctuations.”

### **Artwork Sales Segment**

In managing our artwork sales segment, we purchase artworks which we believe have appreciation potential and resell them through our auctions or private sales or to independent third parties at an appropriate time to make profit. We acquire artworks through participating in art auctions or directly from customers through private sales. After obtaining the relevant information on the artworks, our Internal Artwork Appraisal Team will authenticate and value them in accordance with our internal control policy. For details on authentication and valuation procedures, please see the subsection headed “— Internal Control and Risk Management”.

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During the Track Record Period, we sold 17, 22, and 5 pieces of artworks, respectively, under our artwork sales segment. We generated approximately HK\$5.4 million, HK\$10.5 million, and HK\$8.7 million, respectively, under this segment for the years ended March 31, 2016, 2017 and 2018. We maintain records of our purchased artworks and manage the storage of the relevant artworks in an organized manner. As of March 31, 2018, we had seven pieces Chinese paintings and calligraphies, 59 pieces of Chinese antiques, and three pieces of other artworks. The following table sets forth a breakdown of revenue we generated from our artwork sales segment for the periods indicated:

	Year ended March 31,		
	2016	2017	2018
<b>Revenue (HK\$'000)</b>			
Chinese paintings and calligraphies	1,531	4,450	8,210
Chinese antiques	1,173	4,395	460
Others	<u>2,658</u>	<u>1,615</u>	<u>—</u>
<b>Total</b>	<b><u>5,362</u></b>	<b><u>10,460</u></b>	<b><u>8,670</u></b>

The following table sets forth a summary of our total value of inventories as of the dates indicated:

	As of March 31,		
	2016	2017	2018
<b>Inventories (HK\$'000)</b>			
Chinese paintings and calligraphies	5,949	2,362	4,589
Chinese antiques	13,611	10,005	16,988
Others	<u>1,882</u>	<u>1,391</u>	<u>1,473</u>
<b>Total</b>	<b><u>21,442</u></b>	<b><u>13,758</u></b>	<b><u>23,050</u></b>

As of the Latest Practicable Date, none of our artwork inventory was cultural relics prohibited for sales. We sell artworks when we deem appropriate based on our judgment on market conditions.

For more details on our artwork inventory, please see the section headed “Financial Information — Inventory”, and subsection headed “— insurance”. Please also see the sections headed “Risk Factors — Artworks consigned to us could be subject to damage or theft, which could have a material and adverse effect in our business and brand reputation”, and “— insurance coverage for artworks may not be sufficient, exposing us to losses for artworks in our possession”.



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### INTERNAL CONTROL AND RISK MANAGEMENT

#### Governance Structure

Our sound and effective internal control and risk management systems have provided great support to us in facing different levels of operating risks in our business operations. Our Board is at the highest level to supervise the overall operations of our internal control and risk management systems. Our audit committee and other working teams and committees provide support to our Board in identifying, evaluating and managing various risks inherent to every step of our business operations.

Our audit committee was set up in [REDACTED] whose members currently consist of Lam Suk Ling Shirley (chairlady of the committee), Chung Kwok Mo John, and Chun Chi Man. The primary functions of the audit committee include supervising the risk control measures and systems in respect of different types of risks in our business operations and our risk management. For details of the functions of the audit committee, please refer to the section headed “Directors and Senior Management — Board Committees — Audit Committee” of this document.

#### Authentication and Valuation of Artworks

We have a comprehensive internal control system and policy to authenticate and value artworks. As the authentication and valuation of artworks mostly rely on the subjective judgment of our management and experts, we devote significant resources to establish a concrete internal control and risk management systems in artwork authentication and appraisal and to build up a strong management and expert team to authenticate and value artworks.

#### *Working team and experts for authentication and valuation of artworks*

As of the Latest Practicable Date, our authentication and valuation working team was comprised of 12 members, five of which were members of our Internal Artwork Appraisal Team and seven were our External Artwork Appraisal Consultants. The table below sets forth their respective background and experience in artwork authentication and valuation:

#### *Internal Artwork Appraisal Team*

<u>Name</u>	<u>Position</u>	<u>Experience</u>
Mr. Koizumi Jumpei (小泉潤平)	Tea wares and Chinese ceramics manager of our Group	Mr. Koizumi joined our Group since 2013. For details of Mr. Koizumi’s biography, please refer to the section headed “Directors and Senior Management” of this document.

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<b>Name</b>	<b>Position</b>	<b>Experience</b>
Sun Hongyue (孫鴻月)	Executive Director and the general manager of the painting and calligraphy department of TCA Japan	Mr. Sun has over 30 years of experience in artwork trading and over 23 years of experience in auction. For details of Mr. Sun’s biography, please refer to the section headed “Directors and Senior Management” of this document.
Xu Yi (徐奕)	Manager of paintings and calligraphies department of TCA Japan	Ms. Xu obtained a Bachelor’s degree in Art History in 2009 and a Master’s degree in Art History in 2012, both from Guangzhou Academy of Fine Arts, PRC (廣州美術學院). Before joining our Group in 2012, she furthered her studies in Joshibi University of Art and Design (女子美術大學), specializing in Oriental Buddhist Art History. Since she joined our Group in September 2012, Ms. Xu has participated in the authentication and evaluation of painting and calligraphies involved in our business.
Zhang Heqing (張賀慶)	Chinese artwork specialist assistant of TCA Japan	Mr. Zhang joined us since 2011, and is mainly responsible for participating in local and overseas preview exhibition and authentication and valuation activities, and producing the auction catalog.
Zhao Rui (趙銳)	General manager of the painting and calligraphy department of TCA Japan	Mr. Zhao is an expert in the contemporary ink art industry who has worked in the State Administration of Cultural Heritage of PRC. Before joining our Group in March 2018, he also worked in one of the globally leading auction houses where he was responsible for artwork sourcing and appraisal.

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### *External Artwork Appraisal Consultants*

<b>Name</b>	<b>Area of Expertise</b>	<b>Experience</b>
Mr. Yamashita Houtei (山下方亭)	Chinese painting and calligraphy	Mr. Yamashita has in-depth experience in the research and appraisal of Chinese calligraphy, seal engraving, modern painting and calligraphy. He is currently the permanent consultant of Japanese Seal Engraving Artists Association* (日本篆刻家協會) and the researcher of Seal Engraving Institute* (篆刻藝術院), Chinese National Academy of Arts* (中國藝術研究院). Further, he is also the president of Suifeng Club* (隨風會), a reputable organization in Japan which promotes the art of seal engraving. In addition, he is also the director of Nihon Shodo-in* (日本書芸院), a Japanese calligraphic society, and a permanent member of Dumai Calligraphy Committee* (讀売書法會).
Mr. Mitsui Masashiro (三井雅博)	Chinese painting and calligraphy	Mr. Mitsui is currently the president of Sankeisha* (三圭社), a publisher with ninety years of history in publishing books concerning seal engraving. Mr. Mitsui is currently the director of Japanese Seal Engraving Culture Association* (日本篆刻文化研究會) and the director of Seisoku Gakuen High School* (東京學園高等學校). He has years of experiences in the study, research and appraisal of seal engraving.
Mr. Tong Yanfang* (童衍方)	Chinese painting and calligraphy	Mr. Tong has accumulated years of experience in the authentication and valuation of painting and calligraphy. He is currently the vice president of Xileng Yinshe* (西泠印社), the grade one artist of Shanghai Chinese Painting Academy* (上海中國畫院), the vice chair of Shanghai Calligrapher Association* (上海書法家協會), and the manager of the Seal Engraving Committee* (篆刻委員會).
Mr. Jin Ou* (晉鷗)	Chinese painting and calligraphy	Mr. Jin is currently the chairman of Chinese Calligraphers Association of Japan* (全日本華人書法家協會). He is also the member of Xileng Yinshe* (西泠印社) and Chinese Calligraphers Association* (中國書法家協會). Mr. Jin has years of experience in the authentication and valuation of Chinese calligraphies.

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<u>Name</u>	<u>Area of Expertise</u>	<u>Experience</u>
Mr. Chak Kin Man* (翟健民)	Chinese antique	Mr. Chak is a Chinese antique international distributor, who specializes in the research, sourcing and collection of Chinese ceramics. Being one of the organizers of the International Antiques Fair in Hong Kong (香港國際古玩展), he has years of practical experience in the authentication and valuation of Chinese antiques.
Mr. Ono Kazunori (大野一徳)	Chinese antique	Mr. Ono is the owner of a Japanese antique shop named Maruo Ono Store* (丸エ大野商店). He is also the president of the Member of the Jिंगgang Association of Art Club* (會員制美術會金港會會主). He has accumulated years of experience in the authentication and research of Chinese ceramic artwork.
Mr. Kumasawa Masayuki (熊沢正幸)	Other artworks	Mr Kumasawa is a member of the Ancient Art Assets Evaluation Committee* (古美術資産評價委員會), the president of a Japan-based art association known as the Yayoi Society* (彌生會) and the director of the Kurita Art Museum* (一般財團法人栗田美術館). Mr. Kumasawa has many years of research experience in Buddhist statues.

All External Artwork Appraisal Consultants would be assessed and approved by the chairman of the Board before engagement as the External Artwork Appraisal Consultants. The panel of our External Artwork Appraisal Consultants would be updated timely whenever there are changes on the experts. We select our External Artwork Appraisal Consultants based on various criteria and the selection process would be conducted by our Internal Artwork Appraisal Team and finally approved by the chairman of the Board and documented in the evaluation form.

We have taken additional steps to manage our External Artwork Appraisal Consultants:

- (i) the External Artwork Appraisal Consultants should not be a connected person of us and any of its connected person(s);
- (ii) where any of the External Artwork Appraisal Consultants consigns artwork to be auctioned at our auction, such External Artwork Appraisal Consultant should not be involved in the authentication and valuation of his/her artwork to avoid any conflict of interest;
- (iii) where any of the External Artwork Appraisal Consultants, as bidder, participates in any auction or event held by the Group, the Internal Artwork Appraisal Team will not consider any comments or advices from such External Artwork Appraisal Consultant on the authentication and valuation of any artwork;
- (iv) at least five External Artwork Appraisal Consultants should be available for selection; and

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- (v) the chairman of the Board should perform annual evaluation on the performance of the External Artwork Appraisal Consultants. Such evaluation should be documented on the evaluation form. Our panel of the External Artwork Appraisal Consultants should be updated according to the result of the annual evaluation, and any External Artwork Appraisal Consultants with unsatisfactory result from the annual evaluation should be removed from the panel of the External Artwork Appraisal Consultants.

### ***Basis for authentication and valuation of artworks***

The authenticity of the artwork is evaluated based on the following factors: (i) previous transaction history of the artwork; (ii) opinion of external industry experts who are familiar with the specific type of artworks; (iii) authenticity opinion and reports issued by other domestic or overseas auction houses on other artworks produced by the same artist; (iv) professional knowledge and experience of our Internal Artwork Appraisal Team and/or External Artwork Appraisal Consultants in evaluating similar artworks; (v) judicial judgment or arbitration results regarding the relevant artwork; and (vi) consultation with reputable organizations or institutions.

Major factors in determining the value of the artwork include: (i) recent or historical transaction prices of the particular artwork in previous auctions or private transactions; (ii) the market price and/or recent or historical transaction prices in previous auctions or private transactions for similar artworks or similar type of artworks of the same artists; (iii) quality, scarcity, texture, period, historical meaning and uniqueness of the particular artwork; (iv) the reputation of the artist and the popularity of other artworks of the same artist; (v) price indicators for the relevant type of artworks released by artwork interested parties or professional parties; (vi) the intended auction reserve price proposed by the consignor (if any); and (vii) the demand for the artwork.

### ***Authentication and valuation workflow***

Before accepting artworks consigned to us for auction sale, we conduct a series of due diligence on the background of the relevant artworks through our members in the Internal Artwork Appraisal Team who are familiar with that specific type of artworks. First, preliminary assessment and selection will be conducted by the Internal Artwork Appraisal Team on the artworks in order to identify a suitable artwork for auction. Our primary concerns are:

- (i) the source and ownership of the artwork;
- (ii) whether the item is within the scope of our auction;
- (iii) whether the item is materially defective; and
- (iv) the proposed value of the artwork offered by the consignor.

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Then our Internal Artwork Appraisal Team assesses initially the artworks by performing the following procedures and recording the results of the assessment in the due diligence checklist:

- (i) obtaining personal information of the consignor, including identity card, passport, other proof of identification, business licenses (or business registration certificate) and proof of address for individual consignor (including sole proprietorship and partnership), or business license (or business registration certificate), proof of address and documents containing details of directors and major shareholders for corporate consignor;
- (ii) making enquiry with the consignor and conduct available public searches of the consignor’s background when necessary;
- (iii) requesting consignor to provide documents to prove ownership, authenticity and value of the artwork when necessary;
- (iv) requesting consignor to provide authentication or artist certificate or previous purchase record in auction or private transaction, if any;
- (v) conducting public searches through the internet and from the public security and court record, including but not limited to the “Stolen (Lost) Cultural Relics Information Publishing Platform of China” at <http://bdww.sach.gov.cn/w/list>, to retrieve any record of artworks, if any; and
- (vi) requiring consignor of artwork to give representations and warranties as to the ownership and legality of source, and settling out such representations and warranties as an express term in the auction consignment agreement. We will not accept any artwork that we know is subject to title disputes or legal impediments. For details, please see the section headed “Risk Factors — We are exposed to losses in the event of title claims arising from sale of artworks” of this document.

Based on the preliminary assessment, if it is identified that an artwork is subject to any material flaws, ownership disputes, restricted cultural property, stolen or lost cultural relics, or the legality of sources or ownership of the artwork is in doubt, such artwork will not be accepted. Having obtained the positive results of the preliminary assessments, the artwork will be passed to the Internal Artwork Appraisal Team for verification, authentication and appraisal. The follow-up matters shall be resolved within one month from the date of receiving the artwork. If the follow-up matter is not resolved satisfactorily, the artwork shall be returned to the consignors within two weeks, and the cost of return shall be borne by the consignors. Extension on the follow-up period shall be approved by the chairman of the Board, if necessary.

Members of the Internal Artwork Appraisal Team, who has had proven skills, experience and in-depth industry knowledge for a particular category of artwork, will conduct the preliminary assessment on the authenticity and valuation of the artwork according to their respective professionalism and all valid information and documents provided to them for the assessment. The Internal Artwork Appraisal Team will also consider if the particular artwork would attract interest from bidders or is of strong market demand. When members of the Internal Artwork Appraisal Team or the External Artwork Appraisal Consultants are in doubt of the authenticity of any artwork(s), we will consult and obtain confirmation(s) from the creator(s) of such artwork(s) or seek advise from other external experts. We will only accept a particular artwork if a consensus on the authentication and valuation is reached between the consignor of such artwork and us.

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Factors taken into consideration by our Internal Artwork Appraisal Team are set out in the subsection headed “— Internal Control and Risk Management — Authentication and Valuation of Artworks — Basis for authentication and valuation of artworks” of this section above.

For (i) the top five pieces of artworks with the highest auction reserve price (if any) or the top five pieces of artworks with the highest estimate price range for each auction event held by us, or (ii) any artworks with the auction reserve price (if any) or the lower end of the estimated price range (if applicable) exceeding HK\$20.0 million or JPY250.0 million, the auction reserve price (if any) or the estimated price range of such artworks should be further approved by the chairman of the Board and the result of the authentication and valuation of such artworks should be documented in the due diligence form. Written approval in the due diligence form must be obtained from the evaluating members of the Internal Artwork Appraisal Team and the chairman of the Board when necessary before signing the auction consignment agreement with the consignor.

We will, based on the positive results indicated in the assessment report prepared by the Internal Artwork Appraisal Team, negotiate terms of and if so agreed, sign the auction consignment agreement with the consignor, stating the preliminary auction reserve price (if any) or the estimated price range (if any). The preliminary auction reserve price (if any) of such artwork is determined based on the Internal Artwork Appraisal Team’s valuation result, subject to negotiation with the relevant consignor within the price range suggested by the Internal Artwork Appraisal Team.

For artworks that are consigned by the artwork artists who produce the consigned artworks, they are not subject to authentication by the Internal Artwork Appraisal Team because those consignors can confirm the authenticity of their products. Our Internal Artwork Appraisal Team will however opine on the valuation of those artworks. Based on the Internal Artwork Appraisal Team’s opinion on the value, we will discuss and agree with such artists on the auction reserve price of their artworks for the auction. The authentication and valuation process is mainly conducted by the Internal Artwork Appraisal Team.

However, the Internal Artwork Appraisal Team will consider seeking advice and a second opinion from the External Artwork Appraisal Consultants on the authentication and valuation of certain artworks proposed for auction in the event that (i) the Internal Artwork Appraisal Team does not have sufficient knowledge and experience on authenticating a particular artwork, or (ii) the Internal Artwork Appraisal Team is unable to form a conclusive conclusion on the valuation of the artwork. Under such circumstances, a meeting will be conducted among the Internal Artwork Appraisal Team and the External Artwork Appraisal Consultants engaged for a particular artwork, during which, the External Artwork Appraisal Consultants will provide comments and suggestions on the authentication on the particular artwork and advise on the reasonableness of the appraised value of the particular artwork. If there is a discrepancy on the authentication and valuation of such particular artwork between the Internal Artwork Appraisal Team and the External Artwork Appraisal Consultants after a detailed discussion, such particular artwork will not be put for auction. Otherwise, the final valuation should be the valuation made by both parties and agreed and confirmed by the consignor in the signed auction consignment agreement with us for record and further procedure.

We will not issue any authenticity and valuation report to the consignor and/or buyer and will not separately charge our customers on the authentication work conducted. For details, please see the section headed “Risk Factors — Our business is subject to risks relating to the authentication, valuation of artworks and relevant prices and management’s determination of artworks, which rely on the subjective judgment of our management and experts.” of this document.



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In order to safeguard us against any possible claim and dispute over the authenticity, ownership and defects of the artworks, and for protecting our reputation, we have adopted the following additional risk control measures:

- (i) for artwork auction lots where the aggregate auction reserve price (if any) or the aggregate lower end of the estimated price range for all consigned lots of the same consignor exceeds HK\$10.0 million or JPY140 million, in addition to the auction consignment agreement, we will require the consignor to give us a separate written undertaking on the legality of the source, the consignor’s unencumbered ownership of the artwork(s) and that participation in the auction would not constitute money laundering activities of the consignor;
- (ii) all details of defects on the artwork will be set out in the auction consignment agreement. Prior to the auction, all obvious defects by description has to be included in the auction catalog to notify buyers of such defects. The auctioneer will also announce such defects during the auction operation when the auction transaction of the particular artwork is being conducted;
- (iii) no warranty, representation or guarantee would be given by us on the authenticity and quality of auctioned artworks and a disclaimer of liabilities would be set out in the conditions of sale which we will enter into with the bidders;
- (iv) we require our Internal Artwork Appraisal Team to attend regular trainings or courses organized by relevant organization on subjects in relation to, such as, artworks relating to our business, authentication and valuation of artworks, to obtain latest market news and value of the relevant artwork, as well as the knowledge on authenticating, appraising and evaluating artworks; and
- (v) we assign our vice president, Mr. Katsu, to be responsible for updating our authentication and valuation policy accordingly when process changes occur and submitting to the chairman of the Board for review and approval.

### *Settlement*

We have established the following measures addressing risks associated with the buyer’s defaults in making timely payment after the art auction:

- (i) prior to the commencement of an art auction, we request bidders to enter into bidder registration form pursuant to which we collect bidding deposits from them;
- (ii) after a bidder secures an artwork at hammer price, we require buyer to confirm the amount and time of payment for us right at the auction site; and
- (iii) we normally only arrange delivery of artworks to buyers after we receive full payment.

To reduce risk of buyer’s default of payment, we generally do not grant credit or allow installment payment. However, we may sometimes assist parties to arrange for installment payment for some of our premium customers. For details, please see the section headed “Risk Factors — Our results of business operations could be adversely affected by customer’s default in making payment in due course” in this document.



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We believe that, by adopting our internal control and risk management measures to address risks associated with buyer’s failure in making timely payment, we could effectively reduce relevant risks while maintaining a flexible commercial approach in addressing customers’ demands.

### **Other Measures**

We have initiated measures to tackle other major risks inherent in our business operations.

### ***Customer’s Credit***

We have formulated strict internal procedures according to which, we examine the identity documents of potential consignors and buyers prior to auctions. We generally collect bidding deposits from potential buyers, the amount of which is determined by the value of the relevant artworks consigned for auction. We may adjust the amount of bidding deposits based on the category, quality and value of artworks to be auctioned.

We developed solid internal procedures to handle the credit risks from absentee and telephone bidders. We exercise a three-stage test before we accept such appointment. At the preparatory stage, we identify and understand the background of a new customer before we enter into any business relation with him/her by detailed one to one inquiry. At the preliminary investigatory stage, relevant identification documents and valid business license from natural person and legal person, respectively. At the evaluation stage, we also analyze his/her reason of purchasing artworks and the method of settlement. For details, please refer to the subsection headed “— Internal Control and Risk Management — Anti-money Laundering Measures”.

### ***Measures to govern transactions of closely related parties***

We have established a policy on handling transactions of closely related parties which would constitute connected transactions or continuing connected transactions (both as defined under the Listing Rules) based on the requirements under Chapter 14A of the Listing Rules. Key measures under such policy include the following:

- (i) our Company Secretary should on regular basis communicate and confirm with the connected person(s) if there is any potential and possible connected transaction with the Group. Existing connected person(s) should report to the Company Secretary any potential and possible connected transaction with the Company as soon as possible;
- (ii) our Company Secretary should update the list of connected person(s) and connected transactions (the “**List**”), which states the name of all connected persons, their relationships with the Group, the transaction information, the amount involved, the approved annual cap, and validity period. The List should be sent timely to the senior management and our finance department;
- (iii) our finance department should monitor the transactions stated on the List and also update the transactional data on the List, for example the usage of the approved annual cap, when they occur. If any concern is found, for instance, the actual transaction does not match with the approved transaction and is expected to exceed the approved annual cap, our finance department should promptly notify the senior management and the Company Secretary. The concerned transaction should be withheld until further instruction from the Board; and

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- (iv) our Company Secretary is responsible to follow-up or clarify the connected transaction with the relevant connect person and update on the List. Also, our Company Secretary has to report the connected transaction and the follow-up result to the Board for further decision on a timely basis.

### *Anti-Fraud Measures*

As part of our internal control and risk management measures, we have formulated the following procedures and measures against risk of fraud, including bribery and corruption, of our employees, internal control, assets and information technologies:

- (i) our Board of Directors organizes formal fraud risk evaluation on an annual basis recording and evaluating key fraud risks;
- (ii) our human resources department arranges for trainings on professional ethics and fraudulent behaviors. All managers must evaluate fraud risks within their scope of duty constantly and make sure adequate controls are in place. Material fraud risks must be reported to the Board of Directors;
- (iii) we conduct background checking, including criminal records, employment and financial history as part of the recruitment process;
- (iv) we require new employee to sign an acknowledgment form as acknowledgement and receipt understanding of the employee handbook, the Group’s policies and regulations, including but not limited to the terms of confidentiality, non-compete, anti-bribery and anti-corruption;
- (v) we have anti-fraud measures in respect of our employee including, rotation of staff, assessment of employees against ethical or compliance standards, as well as ethics training;
- (vi) we implement the whistle-blowing policy to provide a mechanism allowing the employees to report any malpractice to the audit committee under the condition of confidentiality and map out the investigation procedure. Our employees are required to report any suspected transactions, potential money laundering activities, criminal offenses or illegal activities, default on any legal obligation, malpractice or fraud in relation to accounting, financial reporting, auditing, internal control and other financial matters, fraudulent activities plotted in collusion with partners, suppliers or competitors and other fraudulent behaviors; and
- (vii) the Board and the audit committee will supervise and review the implementation and effectiveness of the anti-fraud policy and whistle-blowing mechanism on a regular basis.

Our authentication and valuation logistics for our artworks as auction lots are also designed to prevent possible bribery and corruption of our Appraisal Team members. For details, please see the subsection headed “— Authentication and valuation workflow”. Such multiple and collective authentication mechanism is targeted not only to ensure the accuracy and reasonableness of authentication and evaluation results, but also to prevent any possible bribery and corruption between customers on the one hand and our internal employees and external experts on the other hand.

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### *Anti-money Laundering Measures*

Our internal control and risk management systems are designed to cover procedures and measures against money laundering activities. We require our employees to comply strictly with our internal policy and all applicable laws and regulations regarding anti-money laundering.

Major steps and measures of our internal control policy to prevent anti-money laundering activities include:

- (i) we evaluate the identity, financial background, reputation and business activities (if any) of a new customer. We obtain personal information of the consignor or buyer, including identity card, passport or other proof of identification, or valid business licenses (or business registration certificate), and proof of address for individual consignor or buyer (including sole proprietorship and partnership); or valid business license (or business registration certificate), proof of address and documents containing details of directors, major shareholders for corporate consignor or buyer. We also obtain bank reference or guarantee of the consignor or buyer;
- (ii) we verify the authenticity and origin of the relevant artwork. For details, please refer to the subsection headed “— Internal Control and Risk Management — Authentication and Valuation of Artworks”;
- (iii) we require consignor of artwork to give representations and warranties as to the ownership and legality of source, and such representations and warranties are set out as an express term in the auction consignment agreement or the conditions of sale;
- (iv) in the event of a suspected money laundering transaction or a suspected customer, we will promptly report the relevant transaction or customer to our management for further investigation;
- (v) we keep all records for the transaction for monitoring, including daily transaction records, receipts, copies of checks, payment in books and written correspondence of our customers for seven years upon completion of the transaction;
- (vi) we perform regular screening and monitoring process after each auction event and conduct investigation on situations where, (a) the number of successful deals between same buyer and consignor is more than three times; (b) the transactions are always made only between certain consignors and buyers, or between a few consignors and buyers; (c) cumulative transactions over HK\$10 million or JPY140 million in an auction event; or (d) any other suspicious transaction indicators;
- (vii) we assign the accounting officer to perform analysis on the transaction record for the past two years. Any suspicious transactions should at once be reported to the senior management and any transactions with such buyer or consignor must be suspended immediately. The decision to continue or terminate the relationship with such buyer or consignor should be based on the instruction of the Board of Directors after considering the result of the investigation carried out;

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- (viii) we provide a whistle-blowing mechanism allowing the employees to report any malpractice existing in the Group to the Board of Directors and the audit committee under the condition of confidentiality and map out the investigation procedure;
- (ix) we will report the suspected transaction and/or customer to the relevant competent authorities or investigating authorities where such report shall be made in compliance with the applicable anti-money laundering laws and regulations;
- (x) we provide regular training annually and timely updates to the senior management on the risk of money laundering and for any suspicious activity;
- (xi) we ensure the senior management to keep timely communication with relevant authorities and/or financial institutions in accordance with applicable laws and regulations to control risks of anti-money laundering;
- (xii) we conduct periodic review on customer's identification and verification information to identify potential risk;
- (xiii) we conduct a comprehensive risk assessment exercise on an annual basis to assess the various types of risks faced by the Group as well as the corresponding measures in mitigating the risks. The risk of money laundering is also considered in such risk assessment exercise; and
- (xiv) we supervise and review the implementation and effectiveness of the policy by the Board of Directors and the audit committee on a regular basis.

During the Track Record Period and as of the Latest Practicable Date, we complied with all material obligations under the relevant legal and regulatory requirements relating to anti-money laundering and we have not received any notification imposing any penalty on or commencement of any investigation against us by applicable authorities with regard to such activities.

## **INVENTORY MANAGEMENT**

Our inventory mainly consists of artworks which are purchased by us for our artwork sales segment. Although all items held in the inventory are available for immediate sale, the timing of the eventual sale is difficult to be predicted due to the uniqueness of each item, as well as the ever changing trend of the artwork market.

Different types of artworks require different and specific storage conditions, including temperature, humidity and light, to prevent damages. We have installed hygrometer and thermometer to monitor, inspect, record and maintain the temperature and humidity of our storerooms where our inventories are kept, so that the temperature and humidity of our storerooms are monitored, inspected, recorded and maintained at the suitable levels by our employees on a daily basis. Furthermore, we engage professionals to provide security supervision services to our premises, including our offices and storerooms. We have adopted a multiple-tier security system in our warehouse, including fingerprint lock or electronic tags, to control limited access to warehouse areas. Our warehouse must have physical barriers and deterrents that guard against unauthorized access. Also, alarms systems and video surveillance cameras are utilized to monitor premises 24 hours a day and seven days a week. Retrieval of recorded activities are maintained

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for at least 60 days. The staff responsible for keeping the key and security card of any safe or vault are segregated. Lastly, cleaning of warehouse should only be done during official working hours under the supervision of the occupant to the office.

We conduct stocktaking and valuation on artworks in inventory regularly with assistance from our internal experts. On top of our multiple-tier security system and alarm system, we have established rules and policies on our inventory management, which we believe are effective for managing our artworks and prevention of theft on a timely basis.

Upon [REDACTED], we will engage Independent Third Parties to perform valuation of our inventory every year. The valuation of artworks will depend on a complex array of factors, including: (i) the supply and demand for artworks, taking into account the scarcity of the artworks and economic conditions and changing trends in the artwork market within which collecting categories and artists are the most highly sought after; and (ii) recent selling prices achieved in the artwork market for comparable artworks within a particular collecting category and/or by a particular artist.

In addition, we have established a set of strict rules on provision for impairment of inventory. For instance, if we found, during the stocktaking and valuation that (i) the market price of inventory decreased and is not expected to increase in the near future, or (ii) the inventory is damaged or discolored, which lead to a decrease in the value of the relevant item, we will make provisions accordingly. During the Track Record Period, we have not made any provisions to our inventory. Please see the section headed “Financial Information — Description of Certain Items in the Consolidated Balance Sheet — Inventories”.

## CUSTOMERS

Our customers primarily include sellers and buyers who consign or purchase artworks in the art auctions organized by us and buyers to whom we sell artworks as principal under our artwork sales segment. To the best knowledge of our Directors, our customers are generally comprised of artwork interested parties including artworks artists, masters, experts, merchants, collectors, art galleries and private museums.

The table below set forth the numbers of our customers of auction transactions under the art auction and related business segment for the periods indicates:

	Year ended March 31,		
	2016	2017	2018
Sellers	<u>808</u>	<u>661</u>	<u>673</u>
Buyers	<u>820</u>	<u>624</u>	<u>679</u>

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The table below set forth the numbers of our customers under the artwork sales segment for the periods indicates:

	Year ended March 31,		
	2016	2017	2018
Buyers	7	9	4

During the Track Record Period, our revenue derived from our five largest customers accounted for less than 30% of our total revenue. As of the Latest Practicable Date and during the Track Record Period, all of our top five customers were Independent Third Parties, among which Mr. Chan Sai Wei, Mr. Chao Kee Young Ronald (through his indirectly wholly-owned BVI company) are two of our pre-[REDACTED] Investors, and none of our Directors, their associates or any of our Shareholders (which to the knowledge of our Directors owns more than 5% of our share capital) held any interests in any of our five largest customers.

Owing to the nature of our two business segments, our customers under the auction and related business segment and suppliers and/or purchasers of the artworks from whom we purchase and/or sell artwork as principals under the artwork sales segment are artwork interested parties, including but not limited to artworks artists, merchants and collectors. As such, there are customers and suppliers overlapping among our Group’s suppliers and customers in these two business segments.

During the Track Record Period, one of the five largest customers of our Group who was under the auction and related business segment for the years ended March 31, 2016 and 2018 was also one of the five largest suppliers of our Group under the artwork sales segment for the year ended March 31, 2018. We purchased certain artworks from this collector (or supplier) during the year ended March 31, 2018. Total purchase from such supplier accounted for approximately 11.1% of our costs of services and total purchase for the year ended March 31, 2018 and revenue contributed from the same person as a customer accounted for approximately 4.8% and 2.9% of our total revenue for the years ended March 31, 2016 and 2018, respectively.

Our Directors confirmed that all of the transactions with overlapping customers and suppliers were conducted in the ordinary course of business under normal commercial terms and on arm’s length basis and at prices that are no less favorable than from other customers and suppliers who are not overlapping customers and suppliers.

## SALES AND MARKETING

Our marketing activities are mostly conducted prior to the time of the organization of art auctions. Prior to each auction, we conduct various marketing and promotional events to promote market interests and stimulate awareness of our art auctions. Major events include producing and distributing auction catalogs, organizing artworks preview exhibitions and publishing advertisements, marketing and auction information on newspapers, art magazines, television and the internet. For details, please refer to the subsection headed “— Our Business — Main Procedures of Art Auction — Marketing” of this document.

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We also advertise our services and promote brand awareness through a variety of media channels, including promotion through our websites, publication of advertisements on magazines as well as billboards, and organization of preview exhibitions. Furthermore, we hold art exhibitions of various themes, which serve as platforms to exchange views with artwork interested parties, collectors and our customers on the academic and commercial value of various artworks. In addition, we organize special events such as traditional tea ceremonies to promote Japanese tea ware and culture from time to time. Nevertheless, we market artworks on internet or through social media platforms, all of which could be conveniently accessed by our customers via portable gadgets. Having accumulated years of experience in the Chinese and Japanese art auction market, we have established a network of potential customers and our customer services department maintain frequent contact with them regularly to understand their demand and/or their collections. Through all the marketing measures we utilized, we have managed to source and display artworks that are rarely exhibited to the public.

We endeavor to expand our customer base, focusing on developing and maintaining long-term relationship with premium customers, as well as customers with strong supply of premium artworks. We focus on developing our presence in countries and regions where we can find large pools of high-value Chinese and Japanese artworks, such as Hong Kong, Japan, China and Taiwan. In line with development of our capacity of sourcing artworks in the global market, we plan to penetrate into the PRC and American artwork market by establishing representative offices in Beijing and California where we can organize preview exhibitions and conduct sourcing and marketing activities.

We incurred approximately HK\$5.7 million, HK\$6.5 million and HK\$6.1 million, for each of the years ended March 31, 2016, 2017, and 2018, respectively, for our advertising and promotion activities. We believe we have managed to cultivate market interests through increasing public awareness of relevant artworks, which in turn has improved our brand recognition and market leadership.

## SUPPLIERS

Our suppliers mainly include sellers from whom we purchase artworks as principal for our artwork sales segment, property owners who provide venue for artwork preview exhibition and art auction operation, suppliers of event organization and accommodation booking services for our artwork preview exhibition and art auction operation, suppliers of photo-taking, printing and delivery services for our auction catalogs, and suppliers of delivery services for our auctioned artworks and security and insurance services.

For the years ended March 31, 2016, 2017 and 2018, our five largest suppliers together accounted for 77.5%, 73.6%, and 64.9%, respectively, of our costs of services and total purchase, and our single largest supplier accounted for 25.1%, 19.1%, and 18.1%, respectively, of our costs of services and total purchase. We have had relationships with our five largest suppliers for 3.5 to 7 years as of the Latest Practicable Date. As of the Latest Practicable Date and during the Track Record Period, none of our Directors, their associates or any of our Shareholders (which to the knowledge of our Directors owns more than 5% of our share capital) held any interests in any of our five largest suppliers. To the best of our Directors' knowledge, all of our largest five suppliers for the years ended March 31, 2016, 2017 and 2018 were Independent Third Parties, among which, Mr Chan Sai Wei is one of the pre-[REDACTED] investors.



## **BUSINESS**

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### **COMPETITION**

We mainly compete against local and multi-national auction houses in Hong Kong and Japan with capacities for collection, authentication and valuation, and auction of artworks. Some of our competitors have competitive advantages over us in terms of their financial capacity, network coverage and brand recognition. For more discussion on the competitive landscape, please refer to the section headed “Industry Overview — Competition”.

Despite the competitive landscape, we believe that we could maintain and further develop our leading market position in the near future because of our competitive strengths. Please see the subsection headed “— Competitive Strengths” in this section above for more details.

### **INFORMATION TECHNOLOGY**

We rely on our IT systems to manage our business, including transaction processing, financial management and inventory management. We have established an electronic database, which allows us to keep track of historical transaction details and authentication and valuation results of a variety of artworks in our art auctions. Our auction catalogs are also available in digital format, which can be viewed on our websites.

We collaborate with third party software companies and rely on our IT personnel who have extensive IT knowledge and experience to design and maintain our IT systems. We update our IT systems regularly and back up information in our IT systems. Furthermore, we have formulated and implemented internal policy on security management, which ensure critical information assets are identified and protected from unauthorized access, modification, disclosure or destruction; incidents and problems handling, which detect, record, assess, resolve and prevent incidents; disaster recovery plan, which restore and recover operations for critical processes within a predetermined after a disaster.

### **INSURANCE**

We purchase insurance policies in both Hong Kong and Japan for artworks we were consigned for art auctions or purchased as principal, in line with industry practice in the local market. Our Directors believe that the insurance coverage for our operation was adequate and was in line with industry practice as of the Latest Practicable Date. However, the risks related to our business and operations may not be fully covered by insurance. Please refer to the sections headed “Risk Factors — Insurance coverage for artworks may not be sufficient, exposing us to losses for artworks in our possession” and “Risk Factors — Artworks consigned to us could be subject to damage or theft, which could have a material and adverse effect in our business and brand reputation.” of this document. During the Track Record Period and up to the Latest Practical Date, we had not made nor been the subject of any material insurance claims.



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## BUSINESS

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### QUALITY CONTROL

We highly value the importance of the quality of artworks for our art auction and artwork sales, as well as our professional services. We only accept good quality artworks as our auction lots after passing through the authentication and appraisal procedure under our risk management policy. In addition, buyers who attend our art auctions evaluate our auction-related services in terms of the quality of the artworks offered to be sold and our professional services, and therefore we believe we have been able to retain our customers in the long run. Please refer to the subsection headed “— Internal Control and Risk Management — Authentication and Valuation of Artworks” for the authentication and valuation procedure. Securing high quality artworks will in turn minimize our operation risks, enhance our brand image, strengthen our market leading position and improve our profitability. Further, we believe our quality of services and competitiveness are assured by our team of experienced management, officers as well as the Internal Artwork Appraisal Team and External Artwork Appraisal Consultants, and our strict internal control and quality controls procedures, in particular, relating to authentication and valuation of artworks.

We strictly abide by laws and regulations governing our operations and have implemented quality control standards and measures. During the Track Record Period and as of the Latest Practicable Date, we have not experienced any material litigation, disputes or arbitration against us in relation to the quality of the artworks sold at our auction or by us, as well as our auction-related services.

### PROPERTIES

As of the Latest Practicable Date, we owned a number of properties in Japan and leased two properties in Japan, one property in Hong Kong, two properties in Shanghai and one property in Taiwan.

We are exempted from compliance with the requirement of including a property valuation report under Chapter 5 of the Listing Rules and section 38(1) of the Companies (WUMP) Ordinance. Pursuant to Rule 5.01A of the Listing Rules, if the carrying amount of the property interests that do not form part of a [REDACTED] applicant’s property activities are below 15%, the document will be exempted from compliance with the requirement of including a property valuation report. In respect of the requirements under section 38(1) of the Companies (WUMP) Ordinance and paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance, similar exemptions are also available under section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

#### Owned Properties

As of the Latest Practicable Date, we held land ownership of 45 real estates located in Japan with an aggregate gross floor area of 15,234 sq. m. As advised by our Japanese legal advisers, as of the Latest Practicable Date, we were entitled to legally occupy, use, transfer, lease, mortgage, or otherwise dispose of the rights to use these real estates in accordance with applicable Japanese laws and regulations.

We also owned 11 buildings in Japan, with a total gross floor area of approximately 4,224 sq. m. We use these buildings for residence, resting area, museum, resort, art gallery and warehouses. Our Japanese legal advisers have confirmed that as of the Latest Practicable Date, we possessed legal ownership of these properties and we are entitled to occupy, use, benefit, and dispose of such properties in accordance with the relevant Japanese laws and regulations.

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### Leased Properties

Our major leased properties are used for office and warehouse operations. The table below summarizes brief information of our leased properties:

No.	Location	Lessor/Sublessor	Lessee	Rent	Term of tenure	Usage
1.	2nd and 3rd Floor, Kyobashi-Square, 3-7-5 Kyobashi, Chuo-ku, Tokyo, Japan	Sublessor: Kintetsu Real Estate Co., Ltd	TCA Japan	JPY3,153,018 per month	April 1, 2018 to March 31, 2020	Office
2.	501, JM Building, 15-5 Hakozakicho, Nihonbashi, Chuo-ku, Tokyo, Japan	Lessor: Lu Jingqing	TCA Japan	JPY100,000 per month	June 15, 2017 to June 14, 2019	Employee dormitory
3.	Room 2633, 58 Maoming Nan-lu, Shanghai, China <sup>(Note)</sup>	Lessor: Okura Garden Hotel Shanghai	TCA Japan	RMB459,000 per year	April 19, 2018 to April 18, 2019	Office
4.	No. 27, Meisheng Road, China, (Shanghai) Pilot Free Trade Zone, Shanghai, China	Sublessor: Shanghai Yaoyun Limited Company* (上海壹鑿有限公司)	TCA Shanghai	RMB20,000 per year	April 18, 2018 to April 17, 2019	Warehouse
5.	Rooms 2601-4, 26th Floor, Wing On Centre, No. 111 Connaught Road, Central, Hong Kong	Lessor: The Wing On Company Limited (永安有限公司)	The Company	HK\$326,760 per month	October 16, 2017 to October 15, 2020	Office
6.	Room 1303, 13th Floor, No. 88, Section 2, Zhongxiao East Road, Taipei City, Taiwan	Lessor: (1) Hai Hwa Construction Corp. 海華建設股份有限公司 (2) Jiancheng Kaifa Company Limited* (建成開發股份有限公司)	Our representative office in Taiwan	TWD77,000 per month	February 1, 2017 to January 31, 2018	Office

*Note:* As advised by our PRC Legal Advisors, the agreement entered into by the lessor and us in relation to use of this property is not a lease agreement under the PRC law, and thus the registration of such agreement with the competent Chinese authority is not required.

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As of the Latest Practicable Date, the relevant property owners of each of above leased properties possess valid title documents showing ownership of the relevant property. For our leased property in China (Shanghai) Pilot Free Trade Zone\* (中國(上海)自由貿易試驗區) in Shanghai, we have not registered the lease agreement with the competent PRC authority primarily because the lessor has not been cooperating with us in completing the registration procedures. As advised by our PRC Legal Advisors, failure to register such leasing agreement will not affect the validity of the same and the agreement is still valid, however, we may be subject to sanctions imposed by the competent PRC authority due to such non-registration. We may also be ordered by the competent PRC authority to make rectification for any non-registration within a specified period of time and may be subject to a fine in an amount ranging from RMB1,000 to RMB10,000 per non-registration in the event of any delay in making such rectification. Our Directors estimate that the aggregate maximum fine which we may be subject to for our unregistered lease agreement is RMB10,000. We believe that such leased property is not crucial to us as a whole or to our operations as it is only used as our liaison office in China. As of the Latest Practicable Date, we were not subject to any fees or administrative penalties by the competent PRC authority due to our failure to complete the lease registration procedures, and we were not aware of any challenges from third parties on our interests under the lease agreement that might affect our current occupation.

### QUALIFICATIONS AND LICENSES

As of the Latest Practicable Date, we have obtained all the necessary approvals licenses and permits for the operation of our business. During the Track Record Period, we have not experienced any rejection or delay in the application for or renewal of our licenses nor imposition of special conditions for the grant of any approvals, licenses or permits which materially and adversely affected our operations.

### INTELLECTUAL PROPERTY RIGHTS

As of the Latest Practicable Date, we have two registered domain names, namely, “chuo-action.co.jp” in Japan and “chuo-auction.com.hk” in Hong Kong. In addition, we have one registered trademark in Hong Kong, which relates to our corporate name and logo and is material to our business. For further details of our intellectual property rights, please refer to paragraph headed — “Appendix IV — Statutory and General Information — 10. Intellectual property rights of our Group” for further details.

During the Track Record Period and as of the Latest Practicable Date, we have not experienced any litigation, arbitration, or investigation in relation to any infringement of our intellectual property rights by third parties nor our infringement of intellectual property rights owned by other parties, which caused material adverse effect to our operations, and we had complied with all applicable intellectual property laws and regulations in all material respects. Our Directors confirm that they were not aware of any incidents of intellectual property rights infringement, or restrictions with respect to our uses of intellectual property rights, which would have a material adverse effect on our operations.

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## BUSINESS

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### EMPLOYEES

As of the Latest Practicable Date, we had a total of 41 employees, including nine based in Hong Kong, 29 based in Japan, one based in Shanghai, and two based in our representative office in Taiwan. The following table shows a breakdown of our full-time employees by function as of the Latest Practicable Date:

<u>Functions</u>	<u>Number of Employees</u>	<u>% of Employees</u>
Management	5	12.2
Operation	12	29.3
Financial and accounting	7	17.1
Marketing and sales	10	24.3
Administrative and IT	7	17.1
<b>Total</b>	<b><u>41</u></b>	<b><u>100.0</u></b>

We enter into standard employment contracts with our employees where we set forth terms of employment, payments and welfares, their job responsibilities and other terms. Remuneration packages for our employees may comprise of the following elements: base salary, productivity-related incentives and performance-related bonus. Pursuant to the applicable PRC laws and regulations, we have made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance, and maternity insurance), and housing funds for our PRC employee. We have also complied with all applicable labor, trade union, social benefits and staff pension laws, regulations, decrees and orders, or other employee obligations, including but not limited to social insurance, insurance, social contributions, retirement contributions, and other contributions in the jurisdictions and regions in which we operate. We maintained good relationships with our employees. During the Track Record Period, we have not experienced any dispute with our employees that could cause a material adverse effect upon our operations.

We highly value the importance of training and continuous development of our employees in order to retain talents for sustainable development of our business. We arrange newly recruited employees to attend training held in Japan and provide regular on-job trainings to our relevant employees on risk management and authentication and appraisal of artworks.

Our employee benefit expenses mainly include salaries, wages and social insurance costs for our employees, which represented approximately 16.5%, 16.1%, and 13.9% of our total revenue for the years ended March 31, 2016, 2017 and 2018, respectively.

### LEGAL PROCEEDINGS

We are subject to legal proceedings and claims that arise in the ordinary course of business, which primarily include business disputes brought by our suppliers, customers or other business partners. Please see the section headed “Risk Factors — We may be subject to litigations, allegations, complaints and investigations, and our reputation, corporate image and operating results could be adversely affected if such results are adverse to our interests.” of this document.

## **BUSINESS**

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As of the Latest Practicable Date, we were not aware of any litigation, arbitration, claim or investigation of material importance against us, and no litigation, arbitration, claim or investigation or material importance was known to our Directors to be pending or threatened by or against us, which would cause a material adverse effect to our business operations or financial results. Our Directors are not involved in any actual or threatened material claims or litigation. However, we may face legal threats, proceedings and claims in the future.

## **COMPLIANCE**

We are subject to a wide variety of laws, rules and regulations in the ordinary course of our business operations. Please see the section headed “Regulatory Overview”. During the Track Record Period and as of the Latest Practicable Date, we complied with all relevant Japanese and Hong Kong laws and regulations in all material aspects for our business operations in Japan and Hong Kong, respectively, and did not have any material non-compliance with the law, rules and regulations in Japan and Hong Kong which, in the opinion of our Directors, is likely to have material adverse effects on our business, financial condition or results of operations.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

Immediately following completion of the [REDACTED] and the [REDACTED] and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and the options which may be granted under the Share Option Scheme, we will be owned as to approximately [REDACTED]% by Mr. Ando, our chairman of the Board and executive Director. Mr. Ando is entitled to exercise or control the exercise of 30% or more of the voting power at our general meetings, and he is regarded as our Controlling Shareholder under the Listing Rules. Please refer to the section headed “Directors and Senior Management” in this document for further information of Mr. Ando.

During the Track Record Period, Mr. Ando is the beneficial owner of the entire issued shares of Bai Sheng, a company incorporated in Japan engaged in the trading of antiques and artworks in Japan and property investments. Nevertheless, the Directors consider that our Group is capable of carrying on our business independent of our Controlling Shareholder and his associates (including Bai Sheng) based on the following reasons:

#### **Operational independence**

Our operations are independent of and not connected with our Controlling Shareholder. During the Track Record Period and up to the Latest Practicable Date, we have independent access to our customers and suppliers. We have our own internal control systems and accounting systems for our business operations. On this basis, our Directors believe that we do not unduly rely on our Controlling Shareholder to carry on our business.

To avoid any potential conflict of interests and/or competition with our Group, under the Deed of Non-competition, Bai Sheng will cease to be engaged in the business of trading of any antiques and artworks after the [REDACTED] and will focus on property investments. During the Track Record Period, Bai Sheng has not been engaged in auction business. As certain inventory of antiques and artworks of Bai Sheng were yet to be sold as at the Latest Practicable Date, Bai Sheng will only sell those antiques and artworks through our Group as selling agent. Please refer to the section headed “Continuing Connected Transactions” of this document for details.

During the Track Record Period and as at the Latest Practicable Date, TCA Japan had leased the Premises from the Sublessor for an initial term from December 1, 2011 to March 31, 2014, which was automatically renewed to March 31, 2016, and further automatically renewed to March 31, 2018, and has been recently automatically renewed to March 31, 2020. The Tenancy Agreement for the leasing of the Premises is guaranteed by Bai Sheng on joint and several basis pursuant to the Guarantee. We have requested the Sublessor to release the Guarantee but, as the Tenancy Agreement has been recently renewed and given the prevailing heated leasing market in Tokyo, such request had not been granted as at the Latest Practicable Date. It is expected that such Guarantee will continue to subsist after the [REDACTED].

Notwithstanding that the Guarantee will continue to subsist after the [REDACTED], our Directors are of the view that the degree of dependence by virtue of the Guarantee is not excessive and our Group can carry on our business independently of our Controlling Shareholder on the following grounds:

- (a) the Premises is used by our Group as an office premises only. Given the nature of business of our Group, the Premises is not critical to the daily operation of our Group;

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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- (b) there are comparable office premises in the same district of similar size in Tokyo and, as TCA Japan has also leased other properties in Tokyo without the needs of guarantee or other financial supports by Bai Sheng, our Controlling Shareholder and/or his close associates, our Directors believe that TCA Japan would be able to lease alternative office premises without such guarantee and/or financial supports. Besides, given the current rent of the Premises (which is in aggregate JPY3,153,018 per month), usage of the Premises, the time and cost for relocation and renovation of the office would not be significant to our Group. As such, our business operation is not dependent or unduly relying on the use of the Premises (and therefore the Guarantee) and, while it may not be in the interest of our Group to terminate the Tenancy Agreement and relocate to alternative premises, such termination and relocation would not have any material adverse effect on the business operation, financial position or prospect of our Group at all;
- (c) we will procure TCA Japan to use its best endeavors to continue its negotiations with the Sublessor again after the [REDACTED] for the release of the Guarantee as a term for the renewal of the Tenancy Agreement. If such negotiation is unsuccessful, TCA Japan will, after taking into consideration of the then prevailing rental properties market conditions in Japan, seek new premises for lease as its offices in Japan which will not require any guarantee from our Controlling Shareholder and/or his close associates.

Please refer to the section headed “Continuing Connected Transactions” of this document for details of the Tenancy Agreement and the Guarantee.

### **Financial independence**

During the Track Record Period and up to the Latest Practicable Date, we had our own finance department and independent accounting systems. Our Directors also believe that we are able to obtain financing independent from our Controlling Shareholder.

To meet our working capital requirements, during the Track Record Period, we had bank and other borrowings of approximately HK\$31.9 million, HK\$29.7 million and HK\$49.3 million as at March 31, 2016, 2017 and 2018, respectively. During the Track Record Period, while our Group had been able to obtain certain bank borrowings and credit facilities from banks and financial institutions independently without any corporate guarantees and/or other security from Bai Sheng, some of our banking facilities were secured by guarantees provided by Mr. Ando or Bai Sheng. Our Board is of the view that our Group would be able to obtain its own financing to support its business operations without undue reliance on our Controlling Shareholder or his associates after [REDACTED].

Amount due from our Controlling Shareholder and/or related parties to our Group amounted to approximately HK\$2.1 million, HK\$13.9 million and HK\$14.7 million as of March 31, 2016, 2017 and 2018, respectively. Amounts due to our Controlling Shareholder and/or related parties from our Group amount to approximately HK\$3.0 million, HK\$3.0 million and HK\$12.7 million as of March 31, 2016, 2017 and 2018, respectively. As at March 31, 2016, 2017 and 2018, balances due from a related party were unsecured, bore interest at 1% per annum, denominated in JPY, and repayable on demand. As at March 31, 2016, 2017 and 2018, balances due to related party were unsecured, interest-free, denominated in HK\$ and JPY, and repayable on demand. As at March 31,



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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2016 and 2017, amount due to the related parties were unsecured, interest-free denominated in HK\$ and JPY, and repayable on demand. As at March 31, 2018, amount due to the Controlling Shareholder include loan balance of HK\$10,046,000 which was unsecured, bore interest at 1% per annum, denominated in HK\$, and repayable within 1 year. Remaining balances due to the related parties were unsecured, interest-free, denominated in HK\$, and repayable on demand.

The balance of any outstanding amounts due from or to our Controlling Shareholder, his associates and/or related parties has been repaid and settled in full. As at the Latest Practicable Date, one of the Convertible Notes issued to one of the Pre-[REDACTED] Investors was guaranteed by Mr. Ando. Such guarantee will lapse immediately upon [REDACTED].

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we had not provided any loans to, nor given any guarantee, security or pledge for, our Controlling Shareholder, our Directors or their respective associates, and none of our Directors or any of their respective associates had provided any personal guarantee, security or pledge for any of our banking facilities.

In light of the foregoing, our Directors are of the view that our Group does not rely on our Controlling Shareholder and/or his associates by virtue of their provision of financial assistance.

### Management independence

Our Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Ando and his wife, Mrs. Ando are two of our executive Directors.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently. Our Directors are satisfied that our senior management team is able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholder after the [REDACTED].

### RULE 8.10 OF THE LISTING RULES

Mr. Ando is the beneficial owner of the entire issued shares of Bai Sheng, a company incorporated in Japan engaged in the trading of antiques and artworks in Japan and property investments during the Track Record Period. Pursuant to the Deed of Non-competition, upon [REDACTED], Bai Sheng will cease to be engaged in the business of trading of any antiques and artworks, and will not sell any antiques and artworks other than through our Group as selling agent. Please refer to the section headed “Continuing Connected Transactions” of this document for details, and the paragraph headed “Deed of Non-competition” in this section of the document for details of the Deed of Non-competition. Save as



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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disclosed, none of our Controlling Shareholder and our Directors has any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

### DEED OF NON-COMPETITION

Our Controlling Shareholder has confirmed that, save as disclosed in this section and the section headed "Continuing Connected Transactions" of this document, he is not engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business. To protect our Group from any potential competition, our Controlling Shareholder has given non-compete undertakings in our favor under the Deed of Non-Competition on [REDACTED], pursuant to which our Controlling Shareholder has, among other matters, irrevocably and unconditionally undertaken with us on a several basis that at any time during the Relevant Period (as defined below), our Controlling Shareholder shall, and shall procure that his associates (other than our Group) shall:

- (i) save for the Excluded Business (as defined below), not, directly or indirectly, carry on, invest in or be engaged in any business which will or may compete with the business currently and from time to time engaged by our Group ("**Restricted Business**") including but not limited to the marketing, participation in, carrying on or otherwise involvement in the provision of art auction sale services and the trading of artworks from time to time ("**Restricted Service**");
- (ii) not solicit any existing or then existing employee of our Group for employment by him or his associates (excluding our Group);
- (iii) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to his knowledge in his capacity as our Controlling Shareholder and/or Director for the purpose of competing with the Restricted Business; and
- (iv) in respect of any business opportunities undertaken or proposed to be undertaken by him or his associates involving the marketing, participation in, carrying on or otherwise involvement in the Restricted Service, unconditionally use reasonable endeavors to procure that such customer(s) to appoint or contract directly with any member of our Group for marketing, participation in, carrying on or otherwise involvement in the Restricted Service in respect of such business opportunities.

For the above purpose:

- (A) the "Relevant Period" means the period commencing from the [REDACTED] and shall expire upon the earliest date of occurrence of the events below:
  - (a) the date on which the Controlling Shareholder ceases to be a controlling shareholder of our Company (as defined under the Listing Rules);
  - (b) the date on which our Shares cease to be listed on the Stock Exchange or (if applicable) other stock exchange;

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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- (B) the "Excluded Business" means
- (a) any direct or indirect investments of the Controlling Shareholder and/or his associates (excluding our Group) in any member of our Group;
  - (b) any direct or indirect investment of the Controlling Shareholder and/or his associates (excluding our Group) in the marketing, participation in, carrying on or otherwise involvement in the Restricted Service outside Japan and Hong Kong whereby:
    - (i) the aggregate investment by the Controlling Shareholder and/or his associates in the business shall not exceed 30% of the entire equity interests in that business; and
    - (ii) the Controlling Shareholder and/or his associates will not be involved in the operation and management of that business;
  - (c) any direct or indirect investment by our Controlling Shareholder and/or his associates (excluding our Group) in shares of a publicly listed company (other than any member of our Group) whereby:
    - (i) the aggregate interests held by the Controlling Shareholder and/or his associates shall not exceed 5% of the entire issued shares of that company, and
    - (ii) the Controlling Shareholder and/or his associates (individually or taken as a whole) will not be the single largest shareholder or equity holder of that company; and
    - (iii) the Controlling Shareholder and/or his associates will not be involved in the operation and management of that company and/or its subsidiaries; and
  - (d) any sale of antiques and artworks by Bai Sheng through our Group as selling agent.

Our Controlling Shareholder has undertaken under the Deed of Non-competition that he shall, and procure his associates (other than our Group) to, provide to us and/or our Directors (including the independent non-executive Directors) from time to time all information necessary for annual review by the independent non-executive Directors with regard to compliance with the terms of the Deed of Non-competition by our Controlling Shareholder. Our Controlling Shareholder has also undertaken to make an annual declaration as to compliance with the terms of the Deed of Non-competition in our annual report.

In order to properly manage any potential or actual conflict of interests between us and our Controlling Shareholder in relation to the compliance and enforcement of the Deed of Non-competition, we have adopted the following corporate governance measures:

- (i) our independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the Deed of Non-competition by our Controlling Shareholder;

## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER**

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- (ii) we will disclose any decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition either through our annual report or by way of announcement;
- (iii) we will disclose in the corporate governance report of our annual report on how the terms of the Deed of Non-competition have been complied with and enforced; and
- (iv) in the event that any of our Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the Deed of Non-competition, he/she shall disclose his/her interests to our Board and may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholder and his associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

## CONTINUING CONNECTED TRANSACTIONS

### OVERVIEW

The following table sets out the transactions between our Group and our connected persons, which will (upon and after [REDACTED]) continue and constitute continuing connected transactions of our Group under the Listing Rules:

	<u>Parties Involved</u>	<u>Details of Transaction</u>	<u>Nature of Transaction</u>	<u>Proposed annual caps for each of the three years ending March 31, 2021</u>
1	(i) TCA Japan as tenant; (ii) an Independent Third Party as sublessor; and (iii) Bai Sheng as guarantor	Corporate guarantee given by Bai Sheng in respect of the performance of TCA Japan’s obligations under a tenancy agreement for the leasing of an office premises by TCA Japan	Exempt continuing connected transaction	Not applicable
2	(i) Bai Sheng as consignor; and (ii) TCA HK as selling agent	The appointment of our Group as exclusive agent of Bai Sheng antiques and for the sale of its artworks from time to time	Exempt continuing connected transaction	HK\$3 million

Bai Sheng is a company incorporated in Japan which is wholly owned by Mr. Ando, our executive Director, chairman of the Board and Controlling Shareholder. Accordingly, Bai Sheng is a connected person of our Company under Rule 14A.07 of the Listing Rules.

Under the Listing Rules, for so long as Bai Sheng remains as a connected person of our Company, the transactions described below would constitute continuing connected transactions for our Company under the Listing Rules upon the [REDACTED].

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## CONTINUING CONNECTED TRANSACTIONS

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### EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### Corporate guarantee by Bai Sheng in respect of a tenancy agreement

On November 28, 2011, TCA Japan (as tenant), Godo-Kaisha Kyobashi Property\*, an Independent Third Party (as sublessor), and Bai Sheng (as guarantor) entered into a tenancy agreement (the “**Tenancy Agreement**”) for the leasing of the office premises (the “**Premises**”) at 2nd and 3rd Floor, Kyobashi-Square, 3-7-5 Kyobashi Chuo-ku, Tokyo, Japan by TCA Japan from the sublessor. The sublessor to the Tenancy Agreement was subsequently changed to Kintetsu Real Estate Co., Ltd\* (the “**Sublessor**”). The current monthly rent under the Tenancy Agreement is JPY3,153,018. The Tenancy Agreement was for an initial term from December 1, 2011 to March 31, 2014, which was automatically renewed to March 31, 2016, and further automatically renewed to March 31, 2018, and has been recently automatically renewed again to March 31, 2020. The performance of the obligations of TCA Japan under the Tenancy Agreement is guaranteed (the “**Guarantee**”) by Bai Sheng on joint and several basis. We have requested the Sublessor to release the Guarantee but, as the Tenancy Agreement has been recently renewed and given the prevailing heated leasing market in Tokyo, such request had not been granted as at the Latest Practicable Date. It is expected that such Guarantee will continue to subsist after the [REDACTED].

Our Directors are of the view that the Guarantee, being a form of financial assistance (as defined under the Listing Rules) provided by Bai Sheng for our benefit, has been conducted on normal commercial terms or better whereby no security over our assets was granted in respect of such financial assistance by Bai Sheng, the Guarantee will be fully exempted from shareholders’ approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules after the [REDACTED] pursuant to Rule 14A.90 of the Listing Rules.

#### Appointment of our Group as exclusive agent of Bai Sheng for selling its artworks from time to time

Our Group is principally engaged art auction operations acting as an agent by sourcing and accepting artworks on consignment. We collect commissions as our revenue from both our consignors and buyers upon settlement of art auction sales based on the selling price. Bai Sheng, on the other hand, operates an antique shop in Tokyo and is principally engaged in the trading of antiques and artworks in Japan and property investments.

In order to protect our Group from any potential conflict of interests and/or competition from Bai Sheng, under the Deed of Non-competition, Bai Sheng will cease to be engaged in the business of trading of any antiques and artworks in Japan after the [REDACTED] and will focus on property investments. As certain inventory of antiques and artworks of Bai Sheng were yet to be sold as at the Latest Practicable Date, pursuant to a framework consignment agreement (the “**Framework Consignment Agreement**”) dated [REDACTED] and entered into between Bai Sheng as consignor and TCA HK as selling agent, Bai Sheng has appointed our Group as its exclusive agent for the sale of its antiques and artworks (the “**Bai Sheng Artwork**”) by way of auction or, failing which, by way of private sales to be arranged by our Group, from time to time.

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## CONTINUING CONNECTED TRANSACTIONS

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Under the Framework Consignment Agreement, our Group as selling agent will charge Bai Sheng as seller/consignor (1) a sale commission representing a percentage of the final selling price of the Bai Sheng Artwork so sold, plus (2) an insurance fee representing a percentage of the final selling price of the Bai Sheng Artwork so sold as insurance fee. Such selling commission and insurance fee shall be directly deducted from the sale proceeds upon receipt thereof from the relevant buyer. Such rate of selling commission and insurance fee will be determined based on the prevailing selling commission rate and insurance fee rate then generally charged by our Group to Independent Third Party seller/consignor for auction consignment sale. The parties have further agreed that that the sales transactions to be entered into pursuant to the Framework Consignment Agreement and each Individual Consignment Agreement (as defined below) shall be on normal commercial terms and on terms no less favorable to our Group than those offered by our Group to other Independent Third Party seller/consignor for similar consignment sale transaction, and shall be in compliance with the Listing Rules.

It is envisaged that from time to time and as required, individual consignment agreement (each “**Individual Consignment Agreement**”) will be entered into with Bai Sheng for the sale of each Bai Sheng Artwork. Such sales transactions to be entered into between Bai Sheng and us pursuant to each Individual Consignment Agreement shall be in line with the Framework Consignment Agreement, and may only contain provisions which are consistent with the principles, guidelines, terms and conditions set out in the Framework Consignment Agreement. As the Individual Consignment Agreements are simply further elaborations on the transactions contemplated by the Framework Consignment Agreement, they do not constitute new categories of continuing connected transactions as far as the Listing Rules are concerned.

Our Directors consider that the Framework Consignment Agreement and the transactions contemplated thereunder are and will be entered into in the ordinary and usual course of our Group’s business, and the terms of the Framework Consignment Agreement are on normal commercial terms, fair and reasonable, and are in the interests of our Group and our Shareholders as a whole.

As it is anticipated that all the percentage ratios (other than the profits ratio) for the transactions contemplated under the Framework Consignment Agreement and the Individual Consignment Agreement will be less than 5% and the total consideration will be less than HK\$3 million, such transactions will be fully exempt from shareholders’ approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS AND SENIOR MANAGEMENT

#### Directors

Our Board consists of nine Directors, including five executive Directors, one non-executive Director and three independent non-executive Directors. Our Board is responsible for and has general powers for the management and the conduct of our business. The following table lists the current members of our Board and sets out certain information in respect of members of our Board:

Name	Age	Position	Date of appointment as a Director	Date of joining our Group	Responsibilities in our Group	Relationship with other Director(s) and/or members of our senior management
<b>Executive Directors</b>						
Mr. Ando Shokei (安藤湘桂) (alias Liao Xianggui (廖湘桂))	50 <sup>#</sup>	Executive Director and chairman of our Board	July 11, 2013 <sup>(Note)</sup>	November 2010	Overall strategic development, and leading the business development of our Group	Husband of Mrs. Ando
Mrs. Ando Eri (安藤惠理) (alias Feng Huijin (冯慧瑾))	40 <sup>#</sup>	Executive Director and vice chairlady of our Board	May 25, 2018	January 2011	Overall strategic development, and leading the business development of our Group	Wife of Mr. Ando
Mr. Katsu Bunkai (葛文海) (alias Ge Wenhai)	47 <sup>#</sup>	Executive Director and chief operating officer of our Group	May 25, 2018	February 2012	Overall operational management of our Group	N/A
Mr. Sun Hongyue (孫鴻月)	53 <sup>#</sup>	Executive Director	May 25, 2018	December 2015	Overall business development of our Group	N/A
Mr. Yau Chung Hang (邱仲珩)	45 <sup>#</sup>	Executive Director and chief financial officer of the Group	May 25, 2018	January 2018	Overall financial management of our Group	N/A

## DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of appointment as a Director	Date of joining our Group	Responsibilities in our Group	Relationship with other Director(s) and/or members of our senior management
<b>Non-executive Director</b>						
Mr. Yang Yi Chung (楊維聰)	49 <sup>#</sup>	Non-executive Director	May 25, 2018	May 25, 2018	Supervising and providing judgment to the Board	N/A
<b>Independent Non-executive Directors</b>						
Mr. Chung Kwok Mo John (鍾國武)	49 <sup>#</sup>	Independent non-executive Director	[REDACTED]	[REDACTED]	Supervising and providing independent judgment to the Board, the audit committee, the remuneration committee, the nomination committee and the corporate governance committee	N/A
Ms. Lam Suk Ling Shirley (林淑玲)	51 <sup>#</sup>	Independent non-executive Director	[REDACTED]	[REDACTED]	Supervising and providing independent judgment to the Board, the audit committee, the remuneration committee, the nomination committee and the corporate governance committee	N/A



## DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of appointment as a Director	Date of joining our Group	Responsibilities in our Group	Relationship with other Director(s) and/or members of our senior management
Mr. Chun Chi Man (秦治民)	58 <sup>#</sup>	Independent non-executive Director	[REDACTED]	[REDACTED]	Supervising and providing independent judgment to the Board, the audit committee, the remuneration committee, the nomination committee and the corporate governance committee	N/A

*Note:* Mr. Ando was appointed as our Director on July 11, 2013 and re-designated as our executive Director on May 25, 2018.

### Senior Management

The following table lists the current members of our senior management (other than our Directors) who are primarily responsible for the operations and management of our Group.

Name	Age	Present position in our Group	Date of joining our Group	Date of first becoming a senior management of our Group	Responsibilities in our Group	Relationship with Director(s) and/or other members of our senior management
Mr. Chen Jian (陳建)	45 <sup>#</sup>	Artwork management manager of our Group	June 2012	October 2015	Overall management of artwork management of our Group	N/A
Mr. Koizumi Jumpei (小泉潤平)	29 <sup>#</sup>	Tea wares and Chinese ceramics artwork manager of our Group	April 2013	April 2013	Overall management of tea wares and Chinese ceramics artwork of our Group	N/A
Mr. Wong Chi Ming (汪志明)	38 <sup>#</sup>	Assistant general manager of our Group	June 2014	June 2014	Overseeing of execution plan of our Group	N/A

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## DIRECTORS AND SENIOR MANAGEMENT

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### DIRECTORS

#### Executive Directors

**Mr. Ando Shokei (安藤湘桂) (alias Liao Xianggui (廖湘桂)), aged 50<sup>#</sup>**

*Executive Director and chairman of our Board*

Mr. Ando is an executive Director and chairman of our Board, and is responsible for overall strategic development, and leading the business development of our Group. He was appointed as a Director on July 11, 2013 and re-designated as executive Director on May 25, 2018. Mr. Ando is the founder of our Group and our Controlling Shareholder. He has over 10 years of experience in operation and management in the business of artwork trading and over seven years of experience in operation and management of auction. He joined our Group in November 2010 as a director of TCA Japan. He obtained a bachelor’s degree in economics from Dokkyo University in March 1994. Mr. Ando is also a director of certain subsidiaries of our Group.

**Mrs. Ando Eri (安藤惠理) (alias Feng Huijin (馮慧瑾)), aged 40<sup>#</sup>**

*Executive Director and vice chairlady of our Board*

Mrs. Ando is an executive Director and vice chairlady of our Board, and is responsible for overall strategic development, and leading the business development of our Group. She was appointed as an executive Director on May 25, 2018. She has over six years of experience in operation and management of auction. Mrs. Ando joined our Group in January 2011 and became a director of TCA Japan in December 2011. She completed a course in foreign secretary at the Adult Higher Education, School of Continuing Education, Shanghai Jiao Tong University\* (上海交通大學夜大學) in July 2000. Mrs. Ando is also a director of TCA Japan.

**Mr. Katsu Bunkai (葛文海) (alias Ge Wenhai), aged 47<sup>#</sup>**

*Executive Director and chief operating officer of our Group*

Mr. Katsu is an executive Director and chief operating officer of our Group, and is responsible for the overall operational management of our Group. He was appointed as an executive Director on May 25, 2018. Mr. Katsu has over six years of experience in operation in the business of artwork trading and over six years of experience in operation and management of auction. Mr. Katsu joined our Group and was appointed as a director and vice-president of TCA Japan since February 2012. He obtained a master’s degree in business administration from Kanto Gakuin University in March 2008.

**Mr. Sun Hongyue (孫鴻月), aged 53<sup>#</sup>**

*Executive Director*

Mr. Sun is an executive Director, and is responsible for overall business development of our Group. He was appointed as an executive Director on May 25, 2018. Mr. Sun has over 30 years of experience in artwork trading and over 23 years of experience in auction. Mr. Sun joined our Group in December 2015. He has been the general manager of the calligraphy and painting department of TCA Japan since December 2015.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Yau Chung Hang (邱仲珩)**, aged 45<sup>#</sup>

*Executive Director and chief financial officer of our Group*

Mr. Yau is an executive Director and chief financial officer of our Group, and is responsible for overall financial management of our Group. He was appointed as an executive Director on May 25, 2018. Mr. Yau has over 20 years of experience in accounting and financial management. Mr. Yau joined our Group in January 2018.

Mr. Yau has been the independent non-executive director of Wang Yang Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1735), which principally engaged in construction works, since March 2018, the independent non-executive director of Shuang Yun Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1706), which principally engaged in the road works services and construction machinery rental services since October 2017. He had been the chief financial officer and company secretary of Jiashili Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1285), which principally engaged in the manufacturing and sales of biscuits, from March 2014 to December 2017, the independent non-executive director of ABC Communications (Holdings) Limited (currently known as Ban Loong Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 30), which principally engaged in finance and mining-related businesses from May 2013 to October 2014, the chief financial officer of CT Holdings (International) Limited (currently known as Brilliant Circle Holdings International Limited), a company listed on the Main Board of the Stock Exchange (stock code: 1008), which principally engaged in the cigarette package printing business, from September 2007 to February 2014 and its company secretary from March 2009 to February 2014 and the company secretary of Ningbo Yidong Electronic Company Limited\* (寧波屹東電子股份有限公司) (currently known as Zhejiang RuiYuan Intelligent Control Technology Company Limited\* (浙江瑞遠智控科技股份有限公司), a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8249), which principally engaged in the design, manufacture and sale of intelligent controller systems for consumer electrical and electronic appliances and the assembly of mobile phones, from May 2005 to March 2006.

Mr. Yau had also been the credit manager of Valspar Hai Hong Company Limited from May 2000 to October 2001 and has acquired auditing and accounting experiences by working in various accountancy firms which included Kwan Wong Tan & Fong (currently known as Deloitte Touche Tohmatsu) and Li, Tang, Chen & Co. during June 1995 to May 2000. Mr. Yau is a non-practicing member of the Hong Kong Institute of Certified Public Accountants and a fellow of The Association of Chartered Certified Accountants. He obtained a higher diploma certificate in accountancy from the City University of Hong Kong in November 1995 and a bachelor’s degree of arts in accountancy from University of Bolton (long distance learning course) in August 2005.

Mr. Yau was the director of Aviaction International Limited which was incorporated in Hong Kong and was deregistered on April 12, 2001 based on its own application pursuant to section 291AA (Application to Registrar for Deregistration of a Defunct Private Company) of the Predecessor CO. This company has never commenced business or operation.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Non-executive Director

**Mr. Yang Yi Chung** (楊維聰), aged 49<sup>#</sup>

*Non-executive Director*

Mr. Yang is a non-executive Director. He was appointed as a non-executive director on May 25, 2018. Mr. Yang has over five years of experience in operation and management. He is a director of Grassland Finance Limited since January 2014, which principally engages in lending to micro, small and medium enterprises in the PRC. He served as the chief executive officer of Grassland Finance Limited from February 2014 to August 2015. Mr. Yang is the co-managing director of Sagamore China Partners, which principally engages in investment management of private equity funds and direct investments in China. He is the sole director of Sagamore China GP III Limited since May 2012, the sole general partner of an exempted limited partnership. Please refer to the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments — Information about the Pre-[REDACTED] Investors — (3) Paradise Global” for further details. Furthermore, Mr. Yang is also a director of Cobalt Fashion Holding Limited since September 2017, a holding company in vertical integrated knitwear supply. He is a director of South Ocean Knitters Limited, which principally engages in vertically integrated knitwear supply, since November 1997. He obtained a bachelor’s degree in science from Illinois State University in May 1988 and a master’s degree in science from Stanford University in June 1989.

Mr. Yang was the director of the following companies which were incorporated in Hong Kong and were deregistered based on its own application pursuant to section 291AA (Application to Registrar for Deregistration of a Defunct Private Company) of the Predecessor CO or section 751 (Application for Deregistration of Private Company or Company Limited by Guarantee) of the Companies Ordinance and the relevant details are as follows:

<u>Company Name</u>	<u>Nature of Business</u>	<u>Date of Deregistration</u>
SNOW LOTUS INTERNATIONAL COMPANY LIMITED (雪蓮國際有限公司)	Has not been in operation or carried on business during the three months immediately before the application for deregistration or has not commenced business or operation	May 15, 2015
HN Hong Kong Company Limited (香港殷理基有限公司)	Ceased to carry on business or operation for more than three months immediately before application for deregistration or never commenced business or operation	April 5, 2013
SISHEI HK LIMITED	Ceased to carry on business or operation for more than three months immediately before application for deregistration or never commenced business or operation	July 3, 2009

## DIRECTORS AND SENIOR MANAGEMENT

<u>Company Name</u>	<u>Nature of Business</u>	<u>Date of Deregistration</u>
Novel Fabrics Limited (永新布業有限公司)	Ceased to carry on business or operation for more than three months immediately before application for deregistration or never commenced business or operation	September 5, 2008
Sofiesta Company Limited	Ceased to carry on business or operation for more than three months immediately before application for deregistration or never commenced business or operation	January 4, 2008
Novel Woollen Spinning Mills Limited (永新毛紡有限公司)	Ceased to carry on business or operation for more than three months immediately before application for deregistration or never commenced business or operation	December 9, 2005

### Independent non-executive Directors

**Mr. Chung Kwok Mo John (鍾國武)**, aged 49<sup>#</sup>  
*Independent non-executive Director*

Mr. Chung is an independent non-executive Director. He was appointed as an independent non-executive Director on [REDACTED]. Mr. Chung has over 21 years of experience in auditing and financial management. He is the independent non-executive Director who has the qualifications and experience to meet the requirements under Rule 3.10(2) of the Listing Rules.

Mr. Chung was an auditor in an international accounting firm from 1992 to 1999. From 2000, Mr. Chung has held several senior management positions including chief financial officer, executive director and independent non-executive director in a number of listed companies in Hong Kong. Mr. Chung is presently a vice president of Yongsheng Advanced Materials Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3608), which principally engaged in development and manufacture of polyester filament yarns products in China, since February 2018. Mr. Chung has also acted/is acting as an executive director and/or independent non-executive director of the following companies listed/delisted on the Stock Exchange:

<u>Date</u>	<u>Name of listed/delisted company</u>	<u>Stock code</u>	<u>Present principal business activities</u>	<u>Relevant responsibilities</u>
September 2004 to May 2006	AMVIG Holdings Limited (formerly known as “ <b>Vision Grande Group Holdings Limited</b> ”)	2300	Printing of cigarette packages and manufacturing of transfer papers and laser film	Independent non-executive director

## DIRECTORS AND SENIOR MANAGEMENT

Date	Name of listed/delisted company	Stock code	Present principal business activities	Relevant responsibilities
October 2005 to May 2007	Zhejiang Glass Company, Limited	739 (delisted on the Stock Exchange in May 2013)	Manufacturing of raw materials and production and sale of soda ash and flat glass (prior to delisting)	Executive director and chief financial officer (prior to delisting)
March 2011 to Present	Zhengye International Holdings Company Limited	3363	Manufacturing and sale of paper, paperboard and paper-based packaging products	Independent non-executive director
June 2013 to Present	BYD Electronic International Company Limited	285	Manufacture of metal parts, plastic parts, glass casings, and other components, as well as original design, testing and assembly for electronic products	Independent non-executive director
December 2017 to Present	On Time Logistics Holdings Limited (currently known as YTO Express (International) Holdings Limited)	6123	Provision of air and ocean freight forwarding complemented by ancillary and contract logistics services	Independent non-executive director
February 2018 to Present	B&S International Holdings Ltd.	1705	Distribution and retail business	Independent non-executive director

Mr. Chung obtained a bachelor’s degree in economics from Macquarie University in April 1992. He was admitted as a certified practicing accountant of the Australian Society of Certified Practicing Accountants (currently known as CPA Australia) in November 1995 and an associate of the Hong Kong Society of Accountants (currently known as the Hong Kong Institute of Certified Public Accountants) in February 1996. He is currently a non-practicing member of Hong Kong Institute of Certified Public Accountants.

Mr. Chung was the director of the following companies which were incorporated in Hong Kong and were deregistered based on its own application pursuant to section 291AA (Application to Registrar for Deregistration of a Defunct Private Company) of the Predecessor CO or section 751 (Application for Deregistration of Private Company or Company Limited by Guarantee) of the Companies Ordinance and the relevant details are as follows:

## DIRECTORS AND SENIOR MANAGEMENT

<u>Company Name</u>	<u>Nature of Business</u>	<u>Date of Deregistration</u>
LUCKY ELITE INTERNATIONAL LIMITED	Has not been in operation or carried on business during the three months immediately before the application for deregistration or has not commenced business or operation	November 27, 2015
Crystallos Gifts & Crafts Limited	Ceased to carry on business or operation for more than three months immediately before application for deregistration or never commenced business or operation	September 28, 2012

**Ms. Lam Suk Ling Shirley (林淑玲)**, aged 51<sup>#</sup>

*Independent non-executive Director*

Ms. Lam is an independent non-executive Director. She was appointed as an independent non-executive Director on [REDACTED]. Ms. Lam has over 20 years of experience in auditing, accounting and financial management.

Ms. Lam has been appointed as an executive director of Chinlink International Holdings Limited, a company listed on the Main Board of Stock Exchange (stock code: 997), which principally engaged in property investment, international trading business, provision of financing guarantee services and logistics services and interior decoration work business, since February 2012 and also its chief financial officer and company secretary since January 2012. She was the executive director of Jackin International Holdings Limited (currently known as AMCO United Holding Limited), a company listed on the Main Board of Stock Exchange (stock code: 630), which principally engaged in remanufacture and sale of computer printing and imaging products, manufacture and sale of data media products, distribution of data media products, manufacture and sale of plastic moulding products and manufacture and sale of medical devices products, from February 2010 to December 2011, the financial controller of AMVIG Holdings Limited, a company listed on the Main Board of Stock Exchange (stock code: 2300), which principally engaged in the printing of cigarette packages, from July 2007 to March 2010. Ms. Lam held several management position in private companies, including vice president of finance and accounting manager, between June 1999 to February 2006 and between July 2006 to March 2007. She also held position in various international audit firms, including senior associate and accountant between May 1993 and April 1999.

Ms. Lam obtained a bachelor's degree in science from Murdoch University in February 1993 and a master's degree in business administration from the University of Adelaide in April 2006. She was admitted as a certified practising accountant of the Australian Society of Certified Practising Accountants (currently known as CPA Australia) in November 1995 and an associate of the Hong Kong Society of Accountants (currently known as the Hong Kong Institute of Certified Public Accountants) in September 1996. She is currently a non-practicing member of Hong Kong Institute of Certified Public Accountants.



## DIRECTORS AND SENIOR MANAGEMENT

Ms. Lam was the director of the following companies which were incorporated in Hong Kong and were deregistered based on its own application pursuant to section 291AA (Application to Registrar for Deregistration of a Defunct Private Company) of the Predecessor CO or dissolved by creditors' voluntary winding up and the relevant details are as follows:

<u>Company Name</u>	<u>Nature of Business</u>	<u>Date of Deregistration</u>
AFEX INTERNATIONAL (HK) LIMITED	Trading	March 12, 2013
AFEX PROCUREMENT COMPANY LIMITED	Trading	March 12, 2013
SHENZHEN AFEX PRINT IMAGE LIMITED (深圳利滿豐原打印耗 材有限公司)	Ceased to carry on business or operation for more than three months immediately before application for deregistration or never commenced business or operation	February 10, 2012

**Mr. Chun Chi Man (秦治民)**, aged 58<sup>#</sup>  
*Independent non-executive Director*

Mr. Chun is an independent non-executive Director. He was appointed as an independent non-executive Director on [REDACTED]. Mr. Chun has over 20 years of experience in property industry in PRC and Hong Kong.

Mr. Chun has been the General Manager (Leasing) of Century Link, a property developed by Hutchison Property Group Limited from March 2015 to December 2016, the General Manager — commercial of The Hub of Hong Qiao, a property developed by China Xintiandi from January 2014 to November 2014, the General Manager of L Development & Management (Shanghai) Co., Ltd. which principally engaged in property management, from September 2010 to December 2013, the Deputy General Manager of Lai Fung Holdings Limited, a company listed on the Main Board of Stock Exchange (stock code: 1125), which is principally engaged in property development and investment, from September 2007 to July 2010. Mr. Chun held various managerial positions at Hutchison Whampoa Properties Limited from July 1995 to July 2005.

Mr. Chun obtained a bachelor's degree of Science from University of Salford at July 1987. He is a member of Shanghai Chongming District Committee (Consultative Conference).

Mr. Chun was the director of Union Best Cultural Investment Limited (銘匯文化投資有限公司) which was incorporated in Hong Kong and was deregistered on March 13, 2015 based on its own application pursuant to section 751 (Application for Deregistration of Private Company or Company Limited by Guarantee) of the Company Ordinance. This company has not been in operation or carried on business during the three months immediately before the application for deregistration or has not commenced business or operation.



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## DIRECTORS AND SENIOR MANAGEMENT

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### General

Save as disclosed above and in the section headed “Relationship with our Controlling Shareholder” in this document, each of our Directors:

- (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date;
- (ii) had no other relationship with any Directors, senior management or substantial or controlling shareholder of our Company as at the Latest Practicable Date;
- (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date.

As at the Latest Practicable Date, save as the interests of each of the executive Directors in the Shares which are disclosed in the section headed “Further information about Directors and Shareholders — 12(d) Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations” in Appendix IV to this document, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

### SENIOR MANAGEMENT

#### **Mr. Chen Jian (陳建), 45<sup>#</sup>**

*Artwork management manager of our Group*

Mr. Chen is the artwork management manager of our Group. He joined our Group in June 2012.

Mr. Chen completed a course in applied science from Qingdao Institute of Chemical Industry\* (青島化工學院) (now known as Qingdao University of Science & Technology\* (青島科技大學)) in July 1996 and a bachelor’s degree in international economy from Higashi Nippon International University in March 2005. He further obtained a master’s degree in international business from Kanto Gakuin University in March 2008.

#### **Mr. Koizumi Jumpei (小泉潤平), 29<sup>#</sup>**

*Tea wares and Chinese ceramics artwork manager of our Group*

Mr. Koizumi is the tea wares and Chinese ceramics artwork manager of our Group. He joined our Group in April 2013. He has over five years of experience in artworks management. Mr. Koizumi obtained a bachelor’s degree in biology-oriented business and technology from Kindai University in March 2011.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Wong Chi Ming (汪志明), 38<sup>#</sup>**

*Assistant general manager of our Group*

Mr. Wong is the assistant general manager of our Group. He joined our Group in June 2014. Mr. Wong has been the operation and administration manager of Tiancheng International Auctioneer Limited, which principally engaged in provision of auction business, from June 2011 to June 2014. He was also the assistant manager of Seoul Auction Hong Kong Limited, which principally engaged in provision of auction business, from May 2009 to May 2011, the operations and administration officer of Christie’s Hong Kong Limited, which principally engaged in provision of auction business, from August 2004 to October 2006, and the assistant taxation officer of the Inland Revenue Department from July 2003 to August 2004.

Mr. Wong completed the professional exhibition management course (long distance learning course) at Singapore Association of Convention & Exhibition Organizers & Suppliers in June 2006 and a bachelor’s degree in business administration from Lingnan University in November 2002.

### COMPANY SECRETARY

Our Company secretary is Mr. Yau. He is employed by us on a full-time basis. Please refer to his biographical details in the subsection headed “— Directors — Executive Directors” above.

### COMPENSATION

The aggregate amounts of remuneration of our Directors for the years ended March 31, 2016, 2017 and 2018 were approximately HK\$7.9 million, HK\$10.1 million and HK\$11.0 million, respectively. Details of the arrangement for remuneration are set out in Note 33 to the Accountant’s Report as set out in Appendix I to this document. Under such arrangement and pursuant to our Directors’ service agreements and letters of appointment referred to in the section headed “Further information about Directors and Shareholders — 12. Directors” in Appendix IV to this document, the aggregate amount of directors’ fee and other emoluments payable to our Directors for the year ending March 31, 2019 is estimated to be approximately HK\$12.5 million, excluding any discretionary bonuses.

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. We have also adopted the Share Option Scheme, which enable us to provide incentive or reward to our Directors, senior management and other selected participants. For details of the Share Option Scheme, please refer to the section headed “Other Information — 15. Share Option Scheme” in Appendix IV to this document. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation packages of our Directors and senior management.

After [REDACTED], our remuneration committee will make recommendations to our Board on the remuneration packages of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors as an inducement to join or upon joining us or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

## DIRECTORS AND SENIOR MANAGEMENT

For additional information on Directors’ remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to Notes 13 and 33 to the Accountant’s Report as set out in Appendix I to this document.

### BOARD COMMITTEES

The audit committee, remuneration committee, nomination committee and the corporate governance committee of our Company were approved to be established by resolutions passed by our Board on [REDACTED]. The membership of such committee are as follows:

Name of Director	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee
<b>Executive Directors</b>				
Ando Shokei	–	–	Chairman	Member
Ando Eri	–	Member	–	–
<b>Non-executive director</b>				
Yang Yi Chung	–	Member	Member	Member
<b>Independent non-executive Directors</b>				
Chung Kwok Mo John	Member	Chairman	Member	Member
Lam Suk Ling Shirley	Chairlady	Member	Member	Member
Chun Chi Man	Member	Member	Member	Chairman

Each of the above committees has written terms of reference. The functions of the above four committees are summarized as follows:

#### Audit committee

Our Company established an audit committee with written terms of reference in compliance with Code C.3 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The primary duties of our audit committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting and oversee the risk management and internal control principles of our Company.

#### Remuneration committee

Our Company established a remuneration committee with written terms of reference in compliance with Code B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of our remuneration committee are to make recommendations to our Board on the overall remuneration packages and structure relating to all Directors and senior management of our Group, review performance based remuneration and ensure none of our Directors determine their own remuneration.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Nomination committee

Our Company established a nomination committee with written terms of reference in compliance with Code A.5 of the Corporate Government Code as set out in Appendix 14 to the Listing Rules. The primary functions of our nomination committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board.

### Corporate Governance Committee

Our Company established a corporate governance committee with written terms of reference in compliance with Code D.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of our corporate governance committee are to develop and review our policies and practices on corporate governance and make recommendations to our Board.

### COMPLIANCE ADVISER

We have appointed CMBC International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us, among others, at the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (3) where our Company proposes to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this document or where our business activities, developments or results deviate from any forecast, estimate, or other information in this document; and
- (4) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares, the possible development of a false market in our Shares, or any other matters.

The term of appointment our compliance adviser shall commence on the [REDACTED] and end on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the [REDACTED].

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on [REDACTED] under which certain selected classes of participants (including, among others, full-time employees) may be granted options to subscribe for the new Shares. The principal terms of the Share Option Scheme are summarized in the section headed “Other Information — 15. Share Option Scheme” in Appendix IV to this document.

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## PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

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### PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

So far as our Directors are aware, immediately following the completion of the [REDACTED] and the [REDACTED] (but without taking account of any Shares which may be taken up under the [REDACTED] and without taking into account any Shares which may be allotted and issued upon exercise of the [REDACTED] and the options which may be granted under the Share Option Scheme), the following persons will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group:

<u>Name of Shareholder</u>	<u>Nature of interest</u>	<u>Number of Shares held</u> <i>(Note 1)</i>	<u>Approximate shareholding percentage</u> <i>(%)</i>
Mr. Ando	Beneficial owner	[REDACTED](L)	[REDACTED]
Mrs. Ando	Interest of spouse <i>(Note 2)</i>	[REDACTED](L)	[REDACTED]

*Notes:*

- (1) The letter “L” denotes a person’s “long position” in such Shares.
- (2) Mrs. Ando is the spouse of Mr. Ando. Under the SFO, Mrs. Ando is taken to be interested in the same number of Shares in which Mr. Ando is interested.

Save as disclosed herein, our Directors are not aware of any persons who will, immediately following completion of the [REDACTED] and the [REDACTED] (but without taking account of any Shares which may be taken up under the [REDACTED] and any Shares which may be allotted and issued upon the exercise of the [REDACTED] and the options which may be granted under the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

Please refer to the section headed “History, Reorganization and Corporate Structure” and the section headed “Relationship with our Controlling Shareholder” in this document for details of relationship among our substantial Shareholders.

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## SHARE CAPITAL

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The following is a description of the issued share capital of our Company as at the date of this document and immediately upon completion of the [REDACTED] and the [REDACTED]:

*Issued and to be issued fully paid*

100	Shares in issue at the date of this document
[REDACTED]	Shares to be issued pursuant to the [REDACTED]
[REDACTED]	Shares to be issued pursuant to the Convertible Notes
[REDACTED]	Shares to be issued pursuant to the [REDACTED] (excluding any Shares which may be issued under the [REDACTED])

[REDACTED] Shares (Note)

### ASSUMPTIONS

The above table assumes the [REDACTED] becomes unconditional and the issue of Shares pursuant to the [REDACTED] is made as described herein. It does not take into account any Shares which may be issued upon the exercise of the [REDACTED] or the options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors.

*Note:* The share capital of our Company will be enlarged by up to an additional [REDACTED] Shares in the event that the [REDACTED] is exercised in full.

### RANKING

The [REDACTED] and the Shares that may be issued pursuant to the [REDACTED] will rank *pari passu* with all existing Shares in issue on the date of the allotment and issue of such Shares, and in particular will be entitled to all dividends or other distributions declared, made or paid after the date of this document except for the [REDACTED].

For the circumstances under which general meeting are required, please see the summary of the Articles of Association of our Company in “Appendix III — Summary of the Articles of Association”.

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out under “Other Information — 15. Share Option Scheme” in Appendix IV to this document.

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## SHARE CAPITAL

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### GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total number of Shares of not more than the aggregate of:

- (a) 20% of the aggregate number of Shares in issue, excluding the Shares which may be issued pursuant to the [REDACTED], immediately following completion of the [REDACTED] and the [REDACTED]; and
- (b) the total number of Shares repurchased by our Company, if any, under the general mandate to repurchase Shares referred to below.

The aggregate number of Shares which our Directors are authorized to allot and issue under this mandate will not be reduced by the allotment and issue of Shares under a rights issue, scrip dividend scheme or similar arrangement in accordance with the Articles of Association, or pursuant to the exercise of options which were granted under the Share Option Scheme or under the [REDACTED] or the [REDACTED] or upon the exercise of the [REDACTED].

This mandate will expire at the earliest of:

- the conclusion of our Company’s next annual general meeting;
- on the date by which our next annual general meeting is required by the Articles of Association or the Companies Ordinance to be held; or
- when the authority given to our Directors is revoked or varied by an ordinary resolution passed by our Shareholders in general meeting.

For further details of this general mandate, please refer to “Further Information About our Company and our Subsidiaries — 3. Resolutions in Writing of our Sole Shareholder passed on [REDACTED]” in Appendix IV to this document.

### GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate number of Shares of not more than 10% of the aggregate number of Shares in issue following the completion of the [REDACTED] and the [REDACTED] (excluding Shares which may to be issued pursuant to the exercise of the [REDACTED]).

This mandate only relates to repurchases made on the Stock Exchange, or any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and requirements of the Listing Rules. Further information required by the Stock Exchange to be included in this document regarding the repurchase of Shares is set out in “Further Information About our Company and our Subsidiaries — 7. Repurchase by our Company of our Own Securities” in Appendix IV to this document.

## SHARE CAPITAL

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This mandate will expire at the earliest of:

- the conclusion of our Company’s next annual general meeting; or
- on the date by which our next annual general meeting is required by the Articles of Association or the Companies Ordinance to be held; or
- when the authority given to our Directors is revoked or varied by an ordinary resolution passed by of our Shareholders in general meeting.

For further details of this general mandate are set out in “Further Information About our Company and our Subsidiaries — 3. Resolutions in Writing of our Sole Shareholder passed on [REDACTED]” in Appendix IV to this document.



## FINANCIAL INFORMATION

*You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial information as of and for each of the years ended March 31, 2016, 2017 and 2018 and the accompanying notes included in the Accountant’s Report set out in Appendix I to this document. Our consolidated financial information has been prepared in accordance with HKFRS. Potential [REDACTED] should read the whole of the Accountant’s Report set out in Appendix I to this document and not rely merely on the information contained in this section.*

*The following discussion and analysis contains certain forward-looking statement that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. See “Risk Factors” and “Forward-looking Statements”.*

### OVERVIEW

We are one of the leading auction houses of Chinese and Japanese artworks in Hong Kong and Japan. We specialize in auctioneering a wide variety of artworks with emphasis on Chinese and Japanese artworks, including Chinese paintings and calligraphies, Chinese antiques and Japanese and Chinese tea wares.

According to the CIC Report, in 2017, we ranked:

- fourth among all auction houses with Chinese art auction business in Asia (excluding Mainland China) with a market share of 6.5%, in terms of transaction value from the Chinese art auction business;
- second and fifth among all auction houses with Chinese art auction business in Japan and Hong Kong with a market share of 26.8% and 4.4%, in terms of transaction value from the Chinese art auction business in Japan and Hong Kong, respectively; and
- fifth among all auction houses with Japanese art auction business both in Japan and Hong Kong with a market share of 3.1% and 1.4%, in terms of transaction value from the Japanese art auction business in Japan and Hong Kong, respectively.

Capitalizing on our profound knowledge of Chinese and Japanese artworks and the local market in Japan and Hong Kong, our long term relationship with customers, customer-oriented and culture-focused marketing activities and the support of our professional team, we believe that through our continuous efforts, our mission to become one of the internationally well-known auction houses with Chinese and Japanese art auction business can be achieved in the near future.

We operate in two main business segments: (i) the art auction and related business segment; and (ii) the artwork sales segment.

## **FINANCIAL INFORMATION**

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### **FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

Our results of operations, financial condition and the year-to-year comparability of our financial results are principally affected by the following factors:

#### **Economic Conditions and Market Supply and Demand for Artworks**

Our income is mainly based on the buyer’s and seller’s commissions when an auction is completed by strike of hammer. The demand for artworks in the market affects the number of art auction sales being completed, which could in turn affect our financial performance. Besides demand for artworks, sufficient supply of premium and high-quality artworks will also positively affect our financial operations.

Supply and demand for artworks are influenced by the overall economies and the artwork markets in Hong Kong, Mainland China and Japan.

When the economies in Hong Kong, Mainland China and Japan grow, there will be more people willing to spend money in the art auction market. As a result, there will be higher liquidity in terms of art auction sales, which will increase the market prices of artworks and buyers and sellers would become more willing to carry out transactions, which would in turn result in higher buyer’s and seller’s commissions. On the other hand, when the growth of the Hong Kong, Chinese and Japanese economies slow down, potential buyers and sellers may lack incentive to purchase and sell artwork and there will be less art auction sales, i.e. a lower demand, and there will be less competition for artworks. Thus, the buyers and sellers commissions will decrease.

Our artworks sales segment is significantly affected by our ability to obtain sufficient quantities and varieties of artworks to maintain our business in the segment. If we are unable to acquire artworks that have appreciation potential, our profit margin in this segment will be affected. However, the decline in artwork prices during the economy downturn may help us expand our artwork inventories at low costs, which will in turn improve the profitability of our art business in the future.

As such, we expect the economic conditions in Hong Kong, Mainland China and Japan and the market supply and demand for artworks will continue to affect our financial performance significantly.

#### **Relationships with Our Buyers, Consignors and Business Partners**

For both supplying artworks and maintaining our art auction sales, we rely on our ability to develop and maintain relationships with our buyers, consignors and business partners. Our revenue, profitability and operating cash flow are affected by the financial strength of our customers, particularly high-end customers, and our ability to develop and maintain relationships with them. Maintaining a strong relationship with our consignors, which include high-end sellers and collectors, will continue to allow us to supply premium and high-quality artworks. We intend to continue maintaining and developing our customer base through our network. If we are unable to maintain and develop our customer relationships, our business could be materially and adversely affected.

As such, we expect our financial performance will continue to be affected significantly by our relationships with our buyers, consignors and business partners.

## FINANCIAL INFORMATION

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### Competition

In Japan and Hong Kong, we ranked second and fifth respectively among all auction houses with Chinese art auction business in 2017. Whereas, we ranked fifth in both Hong Kong and Japan among all auction houses with Japanese art auction business in 2017.

In Hong Kong, we are in competition with both domestic and foreign companies whilst in Japan, despite we are one of the leading auction houses, we are competing with mostly domestic companies. Our financial performance is affected by the performance of these competitors that may have advantages over us, for example, different strategies, financial resources, customer base, and supply of artworks, etc., which in turn may result in a negative effect to the number and value of our art auction sales, buyer’s and seller’s commissions and thus income. On the other hand, our competitive strengths could continue to allow us to maintain or achieve a leading position in the Chinese and Japanese art auction markets in Hong Kong and Japan. Please see the section headed “Business — Competitive Strengths”.

As such, we expect the competition in Hong Kong and Japan will continue to affect our financial performance significantly.

### BASIS OF PRESENTATION

We engage in the business of provision of auction and related services and artwork sales and were under the common control of Mr. Ando, our Controlling Shareholder, immediately before and after the Reorganization. Accordingly, the Reorganization is regarded as a business combination under common control, and the historical financial information has been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Accordingly, the historical financial information has been prepared by including the historical financial information of the companies comprising the Group as if the current group structure had been in existence throughout the periods presented, or since the date when the combining companies first came under the control of our Controlling Shareholder, whichever is a shorter period.

The net assets of the combining companies were combined using the existing book values from the Controlling Shareholder’s perspective. No amount is recognized in consideration for goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control, to the extent of the continuation of our Controlling Shareholders’s interest.

Inter-company transactions, balances and unrealized gains/losses on transactions between our group companies are eliminated on consolidation.

The financial information has been prepared by our Directors based on the accounting policies which are in accordance with HKFRSs issued by HKICPA, on the basis of presentation as set out in note 2.1 of the Accountant’s Report contained in Appendix I to this document.

## FINANCIAL INFORMATION

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### Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, stated net of discounts, returns and value added taxes. We recognize revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of our activities, as described below. We base our estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

#### *(a) Auction commission revenue*

We earn commission revenue from both buyer and seller through the auction sales in which we mainly act as the role of auctioneer as well as promoting the sales through professional marketing techniques provided. The commission revenue is calculated as a percentage of the hammer price of the artwork sold at the auction in accordance with the contracts between us and the buyer and the seller. Such commission revenue is recognized upon the completion of the auction sale as evidenced by the fall of auctioneer’s hammer and when the collectability of the related receivables from the buyer is reasonably assured. A canceled sale is recorded when it is determined that it is probable that the buyer will not complete the transaction in the period in which that determination is made and the commission revenue as well as the associated receivable balances, including the “commission receivable” and the “receivables from buyers in respect of auction and related business”, are reversed.

#### *(b) Revenue from others service relating to auctions*

In relation to the auctions organized, we also earn other services income from catalog preparation, or insurance charged to the sellers for artworks in preparation for and placed in the auctions, and they are recognized as revenue when the related services are rendered.

#### *(c) Revenue from artwork sales*

Revenue from sale of artworks is recognized upon the transfer of risks and rewards of ownerships, which generally coincides with the time when the goods are delivered to customers and title has passed.

### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

## **FINANCIAL INFORMATION**

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### **Estimated useful lives and residual values of property, plant and equipment**

Our management determines the estimated useful lives, residual values and related depreciation charges for our property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will revise the depreciation charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in future periods.

### **Net realizable value of inventories**

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. Write-downs of inventories are recorded where events or changes in circumstances indicate that the balances may not be realized. The identification of write-downs requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the period in which such estimate has been changed. Our management reassesses these estimates at each balance sheet date.

### **Current and deferred income taxes**

We are subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

### **Impairment of receivables**

Our management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and debtors and the current market condition, and requires the use of judgments and estimates. Our management reassesses the provisions at each balance sheet date.

## FINANCIAL INFORMATION

### RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated income statements for the periods indicated. This information should be read together with our consolidated financial information and related notes, which have been prepared in accordance with HKFRS and requirements of the Companies Ordinance set out in Appendix I — “Accountant’s Report” to this document. Our results of operations in any period are not necessarily indicative of results that may be expected for any future period.

	<b>Year ended March 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	138,613	148,048	173,266
Costs of services	(37,085)	(31,444)	(32,797)
Costs of sales of goods	(4,232)	(9,436)	(8,150)
<b>Gross profit</b>	97,296	107,168	132,319
Other (losses)/gains, net	(358)	259	(433)
Other income	4,119	2,691	2,568
Selling and distribution expenses	(32,984)	(31,574)	(26,765)
Administrative expenses	(37,654)	(37,283)	(49,468)
<b>Operating profit</b>	30,419	41,261	58,221
Finance income	18	6	10
Finance costs	(214)	(263)	(249)
Finance costs, net	(196)	(257)	(239)
<b>Profit before income tax</b>	30,223	41,004	57,982
Income tax expense	(9,644)	(8,641)	(14,053)
<b>Profit for the year</b>	<u>20,579</u>	<u>32,363</u>	<u>43,929</u>
<b>Profit/(loss) attributable to:</b>			
Owners of the Company	18,497	30,780	44,063
Non-controlling interests	2,082	1,583	(134)
	<u>20,579</u>	<u>32,363</u>	<u>43,929</u>
<b>Earnings per share for profit attributable to owners of the Company</b>			
Basic and diluted	<u>185</u>	<u>308</u>	<u>441</u>

Please refer to “Financial Information — Description of Selected Consolidated Income Statements Line Items” for the detailed year-on-year analyses of certain consolidated income statements items.

## FINANCIAL INFORMATION

### DESCRIPTION OF SELECTED CONSOLIDATED INCOME STATEMENTS LINE ITEMS

#### Revenue

During the Track Record Period, we generated our revenue from our two business segments, namely, (i) art auction and related business, and (ii) artwork sales. Revenue from our art auction and related business is mainly comprised of the buyer’s and seller’s commissions, recognized upon the conclusion of sales and purchase between buyers and sellers, usually signified by the strike of hammer. In addition, we also provide other auction-related services to sellers in relation to auction catalog production, delivery of artwork and insurance, the revenue of which is recognized upon rendering of such services.

Revenue from our artwork sales segment is generated from reselling artworks in Japan which we believe possess appreciation potential, through private sales to independent third parties. Our inventory mainly consists of artworks which are purchased by us for resale.

The following table sets forth a breakdown of revenue by business segment for the periods stated:

	Year ended March 31,					
	2016		2017		2018	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Art auction and related business <sup>(Note)</sup>	133,251	96.1	137,588	92.9	164,596	95.0
Artwork sales	5,362	3.9	10,460	7.1	8,670	5.0
	138,613	100	148,048	100	173,266	100

*Note:* Under this segment, in addition to commissions collected from the consignors and buyers of our auctions, we also recorded revenue generated from private sales arranged by us on behalf of the consignors. For details, please refer to the section headed “Business — Our Business” of this document.

Our total revenue increased from approximately HK\$138.6 million for the year ended March 31, 2016 to approximately HK\$148.0 million for the year ended March 31, 2017, and further to approximately HK\$173.3 million for the year ended March 31, 2018, representing a CAGR of 11.8% from the year ended March 31, 2016 to the year ended March 31, 2018.

Revenue from our art auction and related business segment amounted to approximately 96.1%, 92.9% and 95.0% of our total revenue, for the years ended March 31, 2016, 2017 and 2018, respectively. Revenue from our artwork sales segment amount to approximately 3.9%, 7.1% and 5.0% of our total revenue, for the years ended March 31, 2016, 2017 and 2018, respectively.

## FINANCIAL INFORMATION

### *By Product Category*

The following table sets forth a breakdown of revenue by business segment and by artwork category for the periods stated:

	Year ended March 31,											
	2016				2017				2018			
	Art auction and related business		Artwork sales		Art auction and related business		Artwork sales		Art auction and related business		Artwork sales	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(HK\$'000, except for percentages)</i>											
<b>Revenue</b>												
Chinese paintings and calligraphies	68,787	51.6	1,531	28.6	86,926	63.2	4,450	42.5	101,038	61.4	8,210	94.7
Chinese antiques	44,688	33.5	1,173	21.9	37,098	27.0	4,395	42.0	42,602	25.9	460	5.3
Japanese and Chinese tea wares	10,635	8.0	-	-	7,977	5.8	-	-	13,654	8.3	-	-
Others	9,141	6.9	2,658	49.5	5,587	4.0	1,615	15.5	7,302	4.4	-	-
<b>Total</b>	<u>133,251</u>	<u>100</u>	<u>5,362</u>	<u>100</u>	<u>137,588</u>	<u>100</u>	<u>10,460</u>	<u>100</u>	<u>164,596</u>	<u>100</u>	<u>8,670</u>	<u>100</u>

### *Art auction and related business*

Our art auction and related business segment is categorized into four major categories: (i) Chinese paintings and calligraphies; (ii) Chinese antiques; (iii) Japanese and Chinese tea wares; and (iv) other artworks.

Chinese paintings and calligraphies is our largest product category by revenue under the art auction and related business segment, which amounted to 51.6%, 63.2% and 61.4% of the total revenue generated from our art auction and related business segment for the years ended March 31, 2016, 2017 and 2018, respectively.

Chinese antiques is our second largest product category by revenue under the art auction and related business segment, which amounted to 33.5%, 27.0% and 25.9% of the total revenue generated from our art auction and related business segment for the years ended March 31, 2016, 2017 and 2018, respectively.

Japanese and Chinese tea wares is our third largest product category by revenue under the art auction and related business segment, which amounted to 8.0%, 5.8% and 8.3% of the total revenue generated from our art auction and related business segment for the years ended March 31, 2016, 2017 and 2018, respectively.

Revenue generated from art auction and related business of other artworks amounted to 6.9%, 4.0% and 4.4% of the total revenue generated from our art auction and related business segment for the years ended March 31, 2016, 2017 and 2018, respectively.



## FINANCIAL INFORMATION

### *Artwork sales*

Our artwork sales segment is categorized into three major categories: (i) Chinese paintings and calligraphies; (ii) Chinese antiques; and (iii) other artworks such as jewelries.

Chinese paintings and calligraphies is our largest product category by revenue under the artwork sales segment, which amounted to 28.6%, 42.5% and 94.7% of the total revenue generated from our artwork sales for the years ended March 31, 2016, 2017 and 2018, respectively.

Chinese antiques is our second largest product category by revenue under the artwork sales segment, which amounted to 21.9%, 42.0% and 5.3% of the total revenue generated from our artwork sales for the years ended March 31, 2016, 2017 and 2018, respectively.

Revenue generated from sale of other artworks amounted to 49.5%, 15.5% and Nil for the years ended March 31, 2016, 2017 and 2018, respectively.

### ***By Geographical Area***

During the Track Record Period, we conducted our business only in Japan and Hong Kong.

Our revenue by geographical area is recognized by the place where the art auctions took place for our art auction and related business segment, and by the place where the sales were transacted for our artwork sales segment.

The following table sets forth a breakdown of revenue by geographical area for the periods stated:

	Year ended March 31,		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Hong Kong	38,575	63,117	89,757
Japan	100,038	84,931	83,509
	<u>138,613</u>	<u>148,048</u>	<u>173,266</u>

### *Hong Kong*

During the Track Record Period, the total revenue generated in Hong Kong increased because we only entered the Hong Kong market in November 2014, the total revenue for the year ended March 31, 2016 was lower. As our business developed, our total revenue generated in Hong Kong for the years ended March 31, 2017 and 2018 increased. For the year ended March 31, 2018, we have successfully sold a premium Chinese painting with a high hammer price, which according to the CIC Report, recorded the highest hammer price among all the creator's artworks sold by auction houses since 2015 and up to the material time and exceeded HK\$100 million in terms of hammer price for the first time in our history of auction operation.

## FINANCIAL INFORMATION

### *Japan*

For the period between the year ended March 31, 2016 and the year ended March 31, 2017, the total revenue generated in Japan decreased because there were four auctions held in Japan for the year ended March 31, 2016. Whereas, there were only the Spring Auction and Autumn Auction held in Japan for the year ended March 31, 2017. The total revenue generated in Japan remained relatively stable for the year ended March 31, 2017 and the year ended March 31, 2018.

### **Costs of services and costs of sales of goods**

Our costs of services for the art auction and related business segment mainly consist of rental and setup fees for auction venues, catalog production and others. Others mainly comprise of wages for staffs at auctions, auctioneer fee and security costs.

Our costs of sales of goods for the artwork sales segment mainly consist of costs for purchase of artworks.

Our total costs of services and costs of sales of goods accounted for 29.8%, 27.6%, and 23.6%, of our total revenue for the years ended March 31, 2016, 2017 and 2018, respectively. The following table sets forth the breakdown of our costs of services and costs of sales of goods by business segments for the periods indicated:

	Year ended March 31,					
	2016		2017		2018	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(HK\$'000, except for percentages)</i>					
<b><i>Art auction and related business</i></b>						
<b>Costs of services</b>						
Rental and setup fees for auction venues	23,385	63.0	19,672	62.6	20,594	62.8
Catalog production	9,596	25.9	7,644	24.3	8,660	26.4
Others	4,104	11.1	4,128	13.1	3,543	10.8
<b>Total</b>	<b><u>37,085</u></b>	<b><u>100.0</u></b>	<b><u>31,444</u></b>	<b><u>100.0</u></b>	<b><u>32,797</u></b>	<b><u>100.0</u></b>
<b><i>Artwork sales</i></b>						
Costs of sales of goods	<u>4,232</u>	<u>100.0</u>	<u>9,436</u>	<u>100.0</u>	<u>8,150</u>	<u>100.0</u>

## FINANCIAL INFORMATION

### Gross profit and gross profit margin

The following table shows segment revenue, gross profit and gross profit margin of our business segments for the periods indicated:

	Revenue			Gross Profit <sup>(Note)</sup>			Gross Profit Margins		
	Year ended March 31,			Year ended March 31,			Year ended March 31,		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
	<i>(HK\$'000)</i>			<i>(HK\$'000)</i>			<i>(Percentage)</i>		
Art auction and related business	133,251	137,588	164,596	96,166	106,144	131,799	72.2	77.1	80.1
Artwork sales	5,362	10,460	8,670	1,130	1,024	520	21.1	9.8	6.0
<b>Total</b>	<u>138,613</u>	<u>148,048</u>	<u>173,266</u>	<u>97,296</u>	<u>107,168</u>	<u>132,319</u>	<u>70.2</u>	<u>72.4</u>	<u>76.4</u>

*Note:* Gross profit of the art auction and related business segment and artwork sales segment represented the revenue in the respective segment minus costs of services and costs of sales of goods, respectively.

The gross profit margins for our art auction and related business segment amounted to 72.2%, 77.1% and 80.1% for the years ended March 31, 2016, 2017 and 2018, respectively. Whereas, the gross profit margins of our artwork sales segment amounted to 21.1%, 9.8% and 6.0% for the years ended March 31, 2016, 2017 and 2018, respectively.

### Other (losses)/gains

During the Track Record Period, other net gains or losses included net foreign exchange gain or loss, net loss on disposal of property, plant and equipment and change in cash surrender value of key management life insurance contract.

The following table sets forth a breakdown of our other gains or losses for the periods indicated:

	Year ended March 31,		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange (loss)/gain	(246)	543	(248)
Loss on disposal of property, plant and equipment, net	(22)	–	(109)
Changes in cash surrender values of key management life insurance contracts	<u>(90)</u>	<u>(284)</u>	<u>(76)</u>
	<u>(358)</u>	<u>259</u>	<u>(433)</u>

## FINANCIAL INFORMATION

### Other Income

The following table sets forth a breakdown of our other income for the periods indicated:

	Year ended March 31,		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Compensation received	2,073	–	–
Miscellaneous income	1,718	2,069	1,374
Others	328	622	1,194
	4,119	2,691	2,568

Our other income during the Track Record Period included (i) compensation received, which represented a one-off court case settlement fee from a buyer who refused to pay commission in relation to the item bid in a prior year auction, and (ii) miscellaneous income, mainly represented handling fees charged to buyers and sellers who paid by China UnionPay credit card at our art auctions in Japan.

### Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of employee benefit expenses, agency commission, advertising and promotional expenses, transportation, rental and setup fees for preview exhibition venues, entertainment and hospitality and others including insurance, courier and sundry expenses. Selling and distribution expenses amounted to approximately HK\$33.0 million for the year ended March 31, 2016, approximately HK\$31.6 million for the year ended March 31, 2017 and approximately HK\$26.8 million for the year ended March 31, 2018.

The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended March 31,		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Employee benefit expenses	7,184	9,650	9,226
Advertising and promotion expenses	5,739	6,453	6,121
Transportation	3,620	2,383	2,996
Rental and setup fees for preview exhibition venues	1,962	2,137	2,895
Agency commission	9,407	7,104	2,230
Entertainment and hospitality	3,069	1,832	1,796
Others	2,003	2,015	1,501
<b>Total</b>	32,984	31,574	26,765

## FINANCIAL INFORMATION

### Administrative Expenses

Our administrative expenses primarily consists of employee benefit expenses, [REDACTED] expenses, operating lease rentals in respect of rented premises, traveling, entertainment and hospitality, depreciation of property, plant and equipment and others including stationary and printing expenses, courier and translation expenses. Administrative expenses accounted for approximately HK\$37.7 million for the year ended March 31, 2016, approximately HK\$37.3 million for the year ended March 31, 2017 and approximately HK\$49.5 million for the year ended March 31, 2018, respectively, of our revenue during the Track Record Period.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended March 31,		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Employee benefit expenses	15,698	14,224	14,885
[REDACTED] expenses	–	–	[REDACTED]
Operating lease rentals in respect of rented premises	4,453	4,585	6,143
Traveling	4,273	4,243	4,334
Entertainment and hospitality	2,526	3,558	1,944
Depreciation of property, plant and equipment	1,142	1,686	1,894
Consultancy fee	1,937	733	1,580
Bank charge	910	2,746	1,344
Property management and utilities expenses	1,001	1,111	1,172
Provision for bad and doubtful debts	243	162	527
Auditor’s remuneration	32	54	180
Amortization of intangible assets	50	48	49
Shares based compensation expenses	1,528	–	–
Others	3,861	4,133	4,517
<b>Total</b>	<u>37,654</u>	<u>37,283</u>	<u>49,468</u>

### Finance Income and Costs

Our finance income mainly included interest income on bank deposits. Our finance costs consist primarily of interest expense on finance lease liabilities, interest expense on bank borrowings and interest expense on other borrowings.

## FINANCIAL INFORMATION

The following table sets forth a breakdown of the major components of our finance costs, net of our finance income, for the periods indicated:

	Year ended March 31,		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Finance income:			
– Interest income on bank deposits	18	6	10
Finance costs:			
– Interest expense on finance lease liabilities	(40)	(49)	(61)
– Interest expense on bank borrowings	(159)	(214)	(188)
– Interest expense on other borrowings	(15)	–	–
	(214)	(263)	(249)
Finance income/(costs) — net	(196)	(257)	(239)

### Income Tax

Income tax expense consists primarily of the current and deferred tax expenses. We are subject to Hong Kong profit tax at 16.5%. In Japan, the corporate income tax has been calculated on the estimated assessable profit for the Track Record Period at the rates of taxation prevailing in Japan in which we operate. We are subject to national corporate income tax, inhabitant tax, and enterprise tax in Japan, which in aggregate, resulted in effective statutory income tax rates approximately 35.4%–37.1%, 34.8%–35.4% and 34.8% for the years ended March 31, 2016, 2017 and 2018, respectively. Our effective tax rates were 31.9%, 21.1% and 24.2% for the years ended March 31, 2016, 2017 and 2018, respectively.

### Profit for the year

The following table sets forth the profit for the year for the periods indicated:

	Year ended March 31,		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	20,579	32,363	43,929
Profit for the year before [REDACTED] expenses	20,579	32,363	54,828

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## FINANCIAL INFORMATION

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### Year ended March 31, 2017 compared to Year ended March 31, 2018

#### *Overview of our operating results*

#### *Revenue from our art auction and related business*

Between the years ended March 31, 2017 and 2018, revenue of our art auction and related business segment increased by 19.6% from approximately HK\$137.6 million to approximately HK\$164.6 million primarily due to (i) our continuous expansion of the Chinese art auction market in Hong Kong, (ii) our strategy to focus on higher valued artworks in Hong Kong, (iii) our increased effort in marketing, such as holding more preview exhibitions, and (iv) the increase in average buyer’s and seller’s commission rate. Revenue under this segment increased was primarily due to the sale of a premium Chinese painting with a high hammer price as discussed above, which contributed approximately HK\$25.7 million commission.

#### *Revenue from our artwork sales*

Between the years ended March 31, 2017 and 2018, revenue of our artwork sales segment decreased by 17.1% from approximately HK\$10.5 million to approximately HK\$8.7 million primarily due to the decrease in the number of artworks sold from 22 to 5, but the average price of artwork items increased.

#### *Costs of services*

Between the years ended March 31, 2017 and 2018, costs of services of our art auction and related business segment increased by 4.3% from approximately HK\$31.4 million to approximately HK\$32.8 million primarily due to (i) the increase in rental and setup fees for auction venues, and (ii) the increase in catalog production costs as a result of the general increase of such costs.

#### *Costs of sales of goods*

Between the years ended March 31, 2017 and 2018, costs of sales of goods of our artwork sales segment decreased by 13.6% from approximately HK\$9.4 million to approximately HK\$8.2 million primarily due to the decrease in the number of artworks sold.

#### *Gross profit*

As a result of the foregoing, gross profit increased by 23.5% from approximately HK\$107.2 million for the year ended March 31, 2017 to approximately HK\$132.3 million for the year ended March 31, 2018. Our gross profit margin increased from 72.4% for the year ended March 31, 2017 to 76.4% for the year ended March 31, 2018, primarily due to the increase in the gross profit margin under the art auction and related business segment. The gross profit margin of our art auction and related business segment increased from 77.1% to 80.1% mainly because (i) our costs of services for each auction house held remained relatively stable, and (ii) our revenue and average commission rate increased, and in particular, for the year ended March 31, 2018, we have successfully sold a premium Chinese painting, with a high hammer price as discussed above.

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## FINANCIAL INFORMATION

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### *Other (losses)/gains*

We recorded other losses of approximately HK\$433,000 for the year ended March 31, 2018 comprising of (i) exchange loss between Hong Kong Dollar and Japanese Yen of approximately HK\$248,000, (ii) net loss on disposal of property, plant and equipment of approximately HK\$109,000 and (iii) changes in cash surrender values of key management life insurance contracts of approximately HK\$76,000, compared to the other gains of approximately HK\$259,000 for the year ended March 31, 2017.

### *Other income*

Other income decreased by 4.6% from approximately HK\$2.7 million for the year ended March 31, 2017 to approximately HK\$2.6 million for the year ended March 31, 2018 primarily because the decrease in miscellaneous income, which was caused by the decrease in handling fees charged to buyers and sellers due to the decrease in number of transactions using China UnionPay credit card for settlement at our art auctions in Japan.

### *Selling and distribution expenses*

Selling and distribution expenses decreased by 15.2% from approximately HK\$31.6 million for the year ended March 31, 2017 to approximately HK\$26.8 million for the year ended March 31, 2018 primarily due to the decrease in agency commission, including an agency commission paid to a related party controlled by the Controlling Shareholder of approximately HK\$3.7 million for providing certain consultancy services relating to auction operation in Japan. We do not intend to enter into such service with the related party after [REDACTED].

### *Administrative expenses*

Administrative expenses increased by 32.7% from approximately HK\$37.3 million for the year ended March 31, 2017 to approximately HK\$49.5 million for the year ended March 31, 2018 primarily due to (i) the [REDACTED] of approximately HK\$[REDACTED] incurred, and (ii) the increase in operating lease rentals in respect of rented premises of approximately HK\$1.6 million as we rented a new office.

### *Finance income*

Finance income increased by 66.7% from approximately HK\$6,000 for the year ended March 31, 2017 to approximately HK\$10,000 for the year ended March 31, 2018.

### *Finance costs*

Finance costs decreased by 5.3% from approximately HK\$263,000 for the year ended March 31, 2017 to HK\$249,000 for the year ended March 31, 2018.



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## FINANCIAL INFORMATION

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### *Income tax expense*

Income tax expense increased by 62.6% from approximately HK\$8.6 million for the year ended March 31, 2017 to approximately HK\$14.1 million for the year ended March 31, 2018 primarily due to increase in profit before income tax. Our effective tax rate increased from 21.1% for the year ended March 31, 2017 to 24.2% for the year ended March 31, 2018 mainly because the [REDACTED] expenses was not deductible for tax.

### *Profit for the year*

As a result of the foregoing, profit for the period increased by 35.7% from approximately HK\$32.4 million for the year ended March 31, 2017 to approximately HK\$43.9 million for the year ended March 31, 2018 and our profit margin increased from 21.9% to 25.4% primarily due to (i) increase of revenue and gross profit for the reasons discussed above, and (ii) decrease in selling and distribution expenses of approximately HK\$4.8 million, primarily due to the decrease in agency commission paid to the related party, which was offset by the increase in administrative expenses of approximately HK\$12.2 million for the reasons discussed above.

### **Year ended March 31, 2016 compared to Year ended March 31, 2017**

#### *Overview of our operating results*

##### *Revenue from our art auction and related business*

Between the years ended March 31, 2016 and 2017, revenue of our art auction and related business segment increased by 3.3% from approximately HK\$133.3 million to approximately HK\$137.6 million primarily due to (i) the increase in revenue contributed by auctions held in Hong Kong of approximately HK\$24.5 million due to our expansion of the Chinese art auction market in Hong Kong, and (ii) the increase in average commission rate, partially offset by the decrease in revenue contributed by auctions held in Japan of approximately HK\$20.2 million primarily because four auctions were held in Japan for the year ended March 31, 2016 compared to two auctions held for the year ended March 31, 2017.

##### *Revenue from our artwork sales*

Between the years ended March 31, 2016 and 2017, revenue of our artwork sales segment increased by 95.1% from approximately HK\$5.4 million to approximately HK\$10.5 million primarily due to (i) increase in the total number of artworks sold from 17 to 22, and (ii) increase in average price of Chinese antiques sold.

##### *Costs of services*

Between the years ended March 31, 2016 and 2017, costs of services of our art auction and related business segment decreased by 15.2% from approximately HK\$37.1 million to approximately HK\$31.4 million because there were only four auctions held in both Japan and Hong Kong for the year ended March 31, 2017 as compared to six auctions held in both Japan and Hong Kong for the year ended March 31, 2016.

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## FINANCIAL INFORMATION

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### *Costs of sales of goods*

Between the years ended March 31, 2016 and 2017, costs of sales of goods of our artwork sales segment increased by 123.0% from approximately HK\$4.2 million to approximately HK\$9.4 million primarily due to increase in the number of artworks sold.

### *Gross profit*

As a result of the foregoing, gross profit increased by 10.1% from approximately HK\$97.3 million for the year ended March 31, 2016 to approximately HK\$107.2 million for the year ended March 31, 2017. Our gross profit margin increased from 70.2% to 72.4% primarily due to the increase in our gross profit margin under the art auction and related business segment. The gross profit margin of our art auction and related business segment increased from 72.2% to 77.1% mainly because we had generated higher revenue in Hong Kong for the year ended March 31, 2017 as we focused on higher valued artworks, while our costs of services decreased for the year ended March 31, 2017 as only four auctions were held in both Japan and Hong Kong.

### *Other (losses)/gains, net*

We recorded an other gain of approximately HK\$259,000 for the year ended March 31, 2017 comprising of exchange gain between Hong Kong Dollar and Japanese Yen of approximately HK\$543,000, partially offset by changes in cash surrender values of key management life insurance contracts of approximately HK\$284,000, as compared to other losses of approximately HK\$358,000 for the year ended March 31, 2016.

### *Other income*

Other income decreased by 34.7% from approximately HK\$4.1 million for the year ended March 31, 2016 to approximately HK\$2.7 million for the year ended March 31, 2017 mainly because for the year ended March 31, 2016, we recorded an one-off court case settlement fee from a buyer who refused to pay commission in relation to the item bid which amounted to approximately HK\$2.1 million was received, which was partially offset by the increase of handling fees charged to buyers and sellers because the charge of handling fees using of China UnionPay credit card at our art auctions in Japan was only implemented late for the year ended March 31, 2016.

### *Selling and distribution expenses*

Selling and distribution expenses decreased by 4.3% from approximately HK\$33.0 million for the year ended March 31, 2016 to approximately HK\$31.6 million for the year ended March 31, 2017 primarily due to decrease in agency commission, including an agency commission paid to a related party.

### *Administrative expenses*

Administrative expenses slightly decreased by 1.0% from approximately HK\$37.7 million for the year ended March 31, 2016 to approximately HK\$37.3 million for the year ended March 31, 2017.

### *Finance income*

Finance income decreased by 66.7% from approximately HK\$18,000 for the year ended March 31, 2016 to approximately HK\$6,000 for the year ended March 31, 2017.

## FINANCIAL INFORMATION

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### *Finance costs*

Finance costs increased by 22.9% from approximately HK\$214,000 for the year ended March 31, 2016 to approximately HK\$263,000 for the year ended March 31, 2017.

### *Income tax expense*

Income tax expense decreased by 10.4% from approximately HK\$9.6 million for the year ended March 31, 2016 to approximately HK\$8.6 million for the year ended March 31, 2017 primarily due to the decrease in profit in Japan, offset by the increase in profit in Hong Kong. Our effective tax rate decreased from 31.9% for the year ended March 31, 2016 to 21.1% for the year ended March 31, 2017, primarily due to the increase in contribution from our business in Hong Kong, with lower income tax rate.

### *Profit for the year*

As a result of the foregoing, profit for the year increased by 57.3% from approximately HK\$20.6 million for the year ended March 31, 2016 to approximately HK\$32.4 million for the year ended March 31, 2017. Our profit margin increased from 14.8% to 21.9% primarily due to the increase of revenue and gross profit for the reasons discussed above.

## LIQUIDITY AND CAPITAL RESOURCES

### **Cash Flows**

We have historically met our working capital and other capital requirements principally with a combination of capital contributions by shareholders, cash generated from our operations and bank loans. In the future, we expect to continue to mainly rely on our cash flow from operations to fund our working capital needs and will use the [REDACTED] from the [REDACTED] to finance part of our business expansion. For more details, please refer to “Future Plans and Use of [REDACTED]”.

Our primary uses of cash are to (i) fund daily operating expenses, and (ii) expand our artwork sales segment by purchasing artwork inventories.

## FINANCIAL INFORMATION

The following table sets forth selected cash flow data from our consolidated cash flow statements for the periods indicated. For more information, see Appendix I — “Accountant’s Report” to this document.

	<b>Year ended March 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Net cash generated from/(used in)			
operating activities	39,788	25,813	(112,260)
Net cash used in investing activities	(6,516)	(1,276)	(6,854)
Net cash generated from/(used in)			
financing activities	11,074	(3,882)	(29,485)
Net increase/(decrease) in cash and cash equivalent	44,346	20,655	(148,599)
Cash and cash equivalent at beginning of the year	142,727	192,486	213,863
Exchange gains on cash and bank balances	5,413	722	5,118
Cash and cash equivalent at end of year	192,486	213,863	70,382

During the Track Record Period, we had not experienced any significant difficulty in rolling over our bank loans.

### **Net cash generated from operating activities**

Our net cash used in operating activities for the year ended March 31, 2018 of approximately HK\$112.3 million, was primarily a combined result of operating cash flow before changes in working capital of approximately HK\$60.9 million, net cash outflow from change in working capital of approximately HK\$163.0 million and income tax paid of approximately HK\$10.1 million. Change in working capital primarily reflected (i) the increase in trade and other receivables, deposits and prepayment of approximately HK\$324.2 million, and (ii) the increase in inventories of approximately HK\$9.3 million, partially offset by the increase in trade and other payables and accrual of approximately HK\$170.4 million. Explanations of fluctuations of the aforesaid items from the consolidated statement of financial position are set out in the subsection headed “— Description of certain items in the consolidated balance sheet” of this section.

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## FINANCIAL INFORMATION

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Our net cash generated from operating activities for the year ended March 31, 2017 of approximately HK\$25.8 million, was primarily a combined result of operating cash flow before changes in working capital of approximately HK\$43.4 million, net cash outflow from change in working capital of approximately HK\$6.9 million and income tax paid of approximately HK\$10.7 million. Change in working capital primarily reflected the increase in trade and other receivables, deposits and prepayment of approximately HK\$44.4 million partially offset by (i) the decrease in inventories of approximately HK\$7.7 million, and (ii) the increase in trade and other payables and accruals of approximately HK\$29.7 million. Explanations of fluctuations of the aforesaid items from the consolidated statement of financial position are set out in the subsection headed “— Description of certain items in the consolidated balance sheet” of this section.

Our net cash generated from operating activities for the year ended March 31, 2016 of approximately HK\$39.8 million, was primarily a combined result of operating cash flow before changes in working capital of approximately HK\$33.5 million, net cash inflow from change in working capital of approximately HK\$14.0 million and income tax paid of approximately HK\$7.7 million. Change in working capital primarily reflected the increase in trade and other receivables, deposits and prepayment of approximately HK\$14.2 million, partially offset by the increase in trade and other payables and accruals of approximately HK\$28.7 million. Explanations of fluctuations of the aforesaid items from the consolidated statement of financial position are set out in the subsection headed “— Description of certain items in the consolidated balance sheet” of this section.

### **Net cash used in investing activities**

Net cash used in investing activities for the year ended March 31, 2018 was approximately HK\$6.9 million, consisting primarily of (i) purchase of property, plant and equipment of approximately HK\$5.3 million mainly including costs of renovation of our Hong Kong office, and (ii) investment in key management life insurance contracts of approximately HK\$1.8 million, partially offset by decrease in short-term bank deposits of approximately HK\$341,000.

Net cash used in investing activities for the year ended March 31, 2017 was approximately HK\$1.3 million, consisting primarily of (i) the purchase of property, plant and equipment, which amounted to approximately HK\$1.4 million mainly including costs of renovation of our Awaji Property, and (ii) purchase of investment in key management life insurance contracts of approximately HK\$1.9 million, partially offset by receipts upon termination of key management life insurance contracts of approximately HK\$2.0 million.

Net cash used in investing activities for the year ended March 31, 2016 was approximately HK\$6.5 million, consisting primarily of (i) the purchase of property, plant and equipment, which amounted to approximately HK\$4.3 million mainly including the purchase of our Awaji Property, and (ii) investment in key management life insurance contracts of approximately HK\$2.2 million.

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## FINANCIAL INFORMATION

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### Net cash (used in) or generated from financing activities

Net cash used in financing activities for the year ended March 31, 2018 was approximately HK\$29.5 million, primarily attributable to proceeds from bank borrowings of approximately HK\$42.4 million, partially offset by (i) repayment of bank borrowings of approximately HK\$24.7 million, (ii) [REDACTED] expenses of approximately HK\$[REDACTED], (iii) payment in relation to deemed distribution to shareholders of approximately HK\$43.2 million, and (iv) transaction with non-controlling interests of approximately HK\$2.2 million.

Net cash used in financing activities for the year ended March 31, 2017 was approximately HK\$3.9 million, primarily attributable to (i) repayment of bank borrowings of approximately HK\$23.1 million, (ii) repayment of loan from a third party of approximately HK\$1.5 million, and (iii) repayment of finance lease liabilities of approximately HK\$453,000, which was partially offset by proceeds from bank borrowings of approximately HK\$21.4 million.

Net cash generated from financing activities for the year ended March 31, 2016 was approximately HK\$11.1 million, primarily attributable to proceeds from bank borrowings of approximately HK\$22.6 million, partially offset by repayment of bank borrowings of approximately HK\$11.1 million.

### Working Capital

As of March 31, 2016, 2017, and 2018, we had cash and cash equivalents of approximately HK\$192.5 million, approximately HK\$213.9 million, and approximately HK\$70.4 million, respectively. Taking into account of our existing cash and cash equivalents, anticipated cash flow from our operating activities, available bank loan facilities and the estimated net [REDACTED] from the [REDACTED], our Directors are satisfied, after due and careful inquiry, that we have sufficient working capital available to satisfy our liquidity requirements for at least 12 months following the date of this document.

The decrease of cash and cash equivalents from the year ended March 31, 2017 to the year ended March 31, 2018 was primarily due to increase of trade and other receivables because of different timing of the auctions held. In 2017, our Spring Auction in Japan was held in February and most of the payments had been made by buyers prior to the end of our financial year. Whereas, in 2018, our Spring Auction in Japan was held in late March, whereby many of the payments were not made prior to the end of the financial year. As a result, there is an increase of trade and other receivables for the year ended March 31, 2018, which resulted in the decrease of cash and cash equivalent for the same financial year as compared to the year ended March 31, 2017.

Besides, in order to rationalize our Group’s structure in preparation for the [REDACTED], we acquired TCA Japan for approximately HK\$45.3 million during the year ended March 31, 2018. For more details, please refer to “History, Reorganization and Corporate Structure”.

## FINANCIAL INFORMATION

### NET CURRENT ASSETS

The following table sets forth the breakdown of our net current assets as of the dates indicated below:

	As of March 31,		
	2016	2017	2018
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
<b>Current Assets</b>			
Inventories	21,442	13,758	23,050
Trade and other receivables	71,541	106,112	423,661
Deposits and prepayments	3,374	1,088	7,187
Amounts due from a related company	2,070	13,899	14,716
Short term bank deposit	–	341	–
Cash and cash equivalents	<u>192,486</u>	<u>213,863</u>	<u>70,382</u>
<b>Total current assets</b>	<u>290,913</u>	<u>349,061</u>	<u>538,996</u>
<b>Current Liabilities</b>			
Trade and other payables and accruals	182,330	211,215	370,820
Amount due to the Controlling Shareholder	2,014	2,016	11,686
Amount due to a former director	1,000	1,000	1,000
Finance lease liabilities	296	507	467
Borrowings	23,575	21,708	43,972
Current income tax liabilities	<u>17,782</u>	<u>15,219</u>	<u>18,356</u>
<b>Total current liabilities</b>	<u>226,997</u>	<u>251,665</u>	<u>446,301</u>
<b>Net current assets</b>	<u>63,916</u>	<u>97,396</u>	<u>92,695</u>

Our net current assets, being the difference between our total current assets and current liabilities, remained positive during the Track Record Period. As of March 31, 2016, 2017 and 2018, we had net current assets of approximately HK\$63.9 million, approximately HK\$97.4 million and approximately HK\$92.7 million, respectively.

## FINANCIAL INFORMATION

Between the years ended March 31, 2016 and 2017, our net current assets increased from approximately HK\$63.9 million to approximately HK\$97.4 million primarily due to (i) increase of trade and other receivables from approximately HK\$71.5 million to approximately HK\$106.1 million, (ii) increase in amounts due from a related company from approximately HK\$2.1 million to approximately HK\$13.9 million, and (iii) increase in cash and bank balances from approximately HK\$192.5 million to approximately HK\$213.9 million, partially offset by increase in trade and other payables from approximately HK\$182.3 million to approximately HK\$211.2 million.

Between the years ended March 31, 2017 and 2018, our net current assets decreased from approximately HK\$97.4 million to approximately HK\$92.7 million primarily due to (i) the increase in trade and other payables from approximately HK\$211.2 million to approximately HK\$370.8 million, (ii) increase in amount due to controlling shareholder from approximately HK\$2.0 million to approximately HK\$11.7 million, (iii) increase in borrowings from approximately HK\$21.7 million to approximately HK\$44.0 million, and (iv) decrease in cash and bank balances from approximately HK\$213.9 million to approximately HK\$70.4 million, partially offset by (a) increase in inventories from approximately HK\$13.8 million to approximately HK\$23.1 million, (b) increase in trade and other receivables of approximately HK\$106.1 million to approximately HK\$423.7 million, and (c) increase in deposits and prepayments of approximately HK\$1.1 million to approximately HK\$7.2 million.

### DESCRIPTION OF CERTAIN ITEMS IN THE CONSOLIDATED BALANCE SHEET

#### Property, Plant And Equipment

The following table sets forth our property, plant and equipment as of the dates indicated:

	As of March 31,		
	2016	2017	2018
	(HK\$'000)	(HK\$'000)	(HK\$'000)
Property, plant and equipment	<u>8,600</u>	<u>9,542</u>	<u>13,400</u>

Property, plant and equipment mainly included freehold land, building, leasehold improvement, furniture, fixtures and office equipment, motor vehicles and construction in progress. Our property, plant and equipment consecutively increased during the Track Record Period, primarily due to (i) acquisition of Awaji Property for the year ended March 31, 2016, (ii) renovation of our Awaji Property for the year ended March 31, 2017, and (iii) renovation of our Hong Kong office for the year ended March 31, 2018, which were partly offset by depreciation charges.



## FINANCIAL INFORMATION

### Inventories

During the Track Record Period, our inventories primarily consist of artworks we purchased from art auctions or through private sales in Hong Kong, Japan and overseas markets which we believe have appreciation potential and resell them through private sales to make profit. Artworks in our inventory include Chinese paintings and calligraphies, Chinese antiques and others. The following table sets forth a summary of our total value of inventories as of the dates indicated:

	As of March 31,		
	2016	2017	2018
	(HK\$'000)	(HK\$'000)	(HK\$'000)
Chinese paintings and calligraphies	5,949	2,362	4,589
Chinese antiques	13,611	10,005	16,988
Others	1,882	1,391	1,473
<b>Total</b>	<b>21,442</b>	<b>13,758</b>	<b>23,050</b>

Our inventories decreased by 35.8% from approximately HK\$21.4 million as of March 31, 2016 to approximately HK\$13.8 million as of March 31, 2017, primarily due to the increase of number of artworks sold for the year ended March 31, 2017.

Our inventories increased by 67.5% from approximately HK\$13.8 million as of March 31, 2017 to approximately HK\$23.1 million as of March 31, 2018, primarily due to the increase of artworks purchased for resale for the year ended March 31, 2018.

The following table sets forth our average inventory turnover days for the periods indicated:

	Year ended March 31,		
	2016	2017	2018
Average inventory turnover days <sup>(note)</sup>	1,826	681	824

*Note:*

The average inventory turnover days for a year is the average of opening and closing inventory balances divided by costs of sales of goods for that year and multiplied by 365 days.

## FINANCIAL INFORMATION

The high average inventory turnover days was primarily due to the business nature, where we source artworks that possess appreciation value to be held as inventories for resale. Between the years ended March 31, 2016 and 2017, the average inventory turnover days decreased because there were more artworks sold for the year ended March 31, 2017. Whereas, between the years ended March 31, 2017 and 2018, the average inventory turnover days increased because there were fewer artworks sold and more artworks were purchased.

During the Track Record Period, we have not made provisions to our inventory.

As of the Latest Practicable Date, we have not made any subsequent sale of artworks out of the total inventory value as of March 31, 2018.

### Trade and other receivables, deposits and prepayments

As of March 31, 2016, 2017 and 2018, our trade and other receivables were approximately HK\$71.5 million, HK\$106.1 million, and HK\$423.7 million, respectively. The following table sets forth the breakdown of our trade and other receivables, as of the dates indicated:

	Year ended March 31,		
	2016	2017	2018
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Trade receivables	7,485	10,896	45,979
Less: provision for bad and doubtful debts	<u>(42)</u>	<u>(198)</u>	<u>(202)</u>
Trade receivables — net	<u>7,443</u>	<u>10,698</u>	<u>45,777</u>
Other receivables			
– Receivables from buyers in respect of auction and related business	56,012	95,269	338,395
– Consignor advance	7,589	–	15,151
– Input value-added tax recoverable	427	141	23,257
– Others	<u>70</u>	<u>4</u>	<u>1,081</u>
	<u>71,541</u>	<u>106,112</u>	<u>423,661</u>

## FINANCIAL INFORMATION

During the Track Record Period, our trade receivables mainly included buyer’s commission receivables. Seller’s commission receivables would be directly offset against payables to sellers in respect of auction and related business. Trade receivables increased by 43.7% from approximately HK\$7.4 million as of March 31, 2016 to approximately HK\$10.7 million as of March 31, 2017, primarily due to increase of revenue of the art auction and related business segment. Trade receivables increased by 327.9% from approximately HK\$10.7 million as of March 31, 2017 to approximately HK\$45.8 million as of March 31, 2018, primarily due to the different timing of the Spring Auctions in Japan held for the year ended March 31, 2017 and 2018, respectively and an outstanding commission from the buyer who was involved in the auction item of a premium Chinese painting as discussed in below.

For the year ended March 31, 2017, our Spring Auction in Japan was held in February and most of the trade receivables had been settled prior to the end of our financial year. Whereas, for the year ended March 31, 2018, our Spring Auction in Japan was held in late March, whereby many of the payments were not received prior to the end of the financial year. As a result, there was an increase of trade receivables for the year ended March 31, 2018. During the Autumn Auction held in November 2017, after intensive competitions of more than 70 bidding from various bidders, we have successfully sold a premium Chinese painting with a high hammer price. As of March 31, 2018, the relevant outstanding trade receivables and receivables from buyers in respect of auction and related business for this auction item represented approximately 32.8% of our total trade receivable and approximately 44.6% of our receivables from buyers in respect of auction and related business, respectively, which contributed significant increase in these balances from March 31, 2017 to March 31, 2018. Considering that (i) we have received HK\$56 million for this transaction and thus the relevant trade receivable has been fully settled as of the date of this document, (ii) the buyer has confirmed that he will settle the full amount by September 2018, (iii) the buyer has been one of our key customers in the past and does not have any history of default, and (iv) the fact that the buyer is with remarkable personal wealth, the Directors consider that the relevant outstanding trade receivables is considered fully recoverable and no provision allowance is necessary.

The credit period of 7 days is for commission receivables and 30 days for receivables from artwork sales. The aging analysis of trade receivables based on invoice date, before provision for impairment, as at March 31, 2016, 2017 and 2018, was as follows:

	<b>As at March 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables — gross			
– Within 3 months	4,886	7,161	21,597
– 3 to 6 months	4	1,190	20,243
– 6 to 12 months	1,833	10	2,667
– Over 1 year	762	2,535	1,472
	<b>7,485</b>	<b>10,896</b>	<b>45,979</b>

## FINANCIAL INFORMATION

As at March 31, 2016, 2017 and 2018, trade receivables of approximately HK\$7.4 million, HK\$10.7 million and HK\$45.8 million respectively, were past due but not impaired. Based on the past experience, the Directors believe that no impairment allowance is necessary in respect of these balances as there is no significant change in their credit quality and the balances are considered fully recoverable. These trade receivables relate to a number of debtors for whom there is no recent history of default in payment. The aging analysis of these trade receivables and receivables past due but not impaired at respective balance sheet dates is as follows:

	As at March 31,		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables — gross			
– Within 3 months	4,886	7,161	21,597
– 3 to 6 months	4	1,190	20,243
– 6 to 12 months	1,833	10	2,667
Over 1 year	720	2,337	1,270
	7,443	10,698	45,777

Movements on the Group’s provision for impairment of trade receivables and other receivables from buyers in respect of auction business are as follows:

	As at March 31,		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of the year	5	42	198
Provision for bad and doubtful debts	243	162	527
Write-off	(209)	–	(512)
Exchange differences	3	(6)	(11)
At end of the year	42	198	202

## FINANCIAL INFORMATION

The following table sets forth our average trade receivables turnover days for the periods indicated:

	Year ended March 31,		
	2016	2017	2018
Average trade receivables turnover days <sup>(note)</sup>	<u>19</u>	<u>23</u>	<u>60</u>

*Note:*

The average trade receivables turnover days for a year is the average of opening and closing gross trade receivables balances divided by revenue for that year and multiplied by 365 days.

In general, the credit period granted to our customers is 7 days. However, in some cases, we would grant a longer period to customers who have long-term business relationships with us. Between the year ended March 31, 2016 and the year ended March 31, 2017 the average trade receivables turnover days increased from 19 days to 23 days primarily due to some long outstanding balances with certain buyers. Between the year ended March 31, 2017 and the year ended March 31, 2018, the average trade receivable turnover days further increased from 23 days to 60 days primarily due to the increase in trade receivables as of March 31, 2018 as explained above.

At the Latest Practicable Date, the subsequent settlement of our trade receivables was approximately HK\$37.0 million, representing 80.5% of the trade receivables as of March 31, 2018.

During the Track Record Period, other receivables from buyers in respect of the art auction and related business segment represented the outstanding hammer price of the auction articles that the Group was obliged to collect from buyers on behalf of sellers. On the other hand, payables to sellers in respect of auction and related business represented the purchase price of auction articles received on behalf of sellers less seller commissions and other auction related revenue. Due to the nature of the auction business, we are obliged to collect the hammer price from buyers and remit the net proceeds after deducting the relevant commission and fees to seller. Therefore, upon completion of auction sale and before the buyers making any payment, we recognize receivables from buyers in respect of auction and related business and payables to sellers in respect of auction and related business, as our asset and liability respectively. However, we are not obligated to pay the seller for the auction lots that have not been paid for by the buyer. If a buyer defaults on payment, the sale may be canceled, and we do not need to settle the payables to sellers in respect of auction and related business.

The increase of approximately HK\$243.1 million in the receivables from buyers in respect of auction and related business from HK\$95.3 million as of March 31, 2017 to HK\$338.4 million as of March 31, 2018, was mainly attributable to the different timing of the auctions and the outstanding balance in relation to the auction of a premium Chinese painting with a high hammer price as discussed above. This amount increased from approximately HK\$56.0 million for the year ended March 31, 2016 to approximately HK\$95.3 million for the year ended March 31, 2017 was primarily due to the delay in settlement from certain customers.

During the Track Record Period, consignor advance represented the amount, which depends on the value of the article and is generally determined through negotiation between us and the consignors, paid to a total of three separate consignors in Hong Kong and Japan in advance of their auction article(s) being auctioned. For further details please refer to “Business — Consignor Advances”.

## FINANCIAL INFORMATION

During the Track Record Period, apart from receivables from buyers in respect of auction business and consignor advances, other receivables mainly included input value-added tax. Between the year ended March 31, 2017 and the year ended March 31, 2018, the input value-added tax recoverable increased significantly from approximately HK\$141,000 to approximately HK\$23.3 million primarily due to a tax sum required by the local tax authority in Japan when we delivered certain auction items from Tokyo to Kyoto for a preview exhibition for the year ended March 31, 2018. This amount has already been recovered from the relevant local tax authority upon completion of the preview exhibition and return of the auction items to Tokyo in May 2018.

The increase in others under other receivables as of March 31, 2018 was due to the prepayment of HK\$1.0 million for purchasing artworks.

As of March 31, 2016, 2017 and 2018, our deposits and prepayments were approximately HK\$16.5 million, HK\$13.9 million and HK\$23.7 million, respectively. The following table sets forth the breakdown of our deposits and repayments as of the dates indicated:

	Year ended March 31,		
	2016	2017	2018
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Deposits and prepayments	<u>16,488</u>	<u>13,939</u>	<u>23,693</u>
Less: Non-current portion:			
Rental and other deposits	(2,892)	(2,993)	(4,236)
Key management life insurance contracts	<u>(10,222)</u>	<u>(9,858)</u>	<u>(12,270)</u>
Current portion	<u><u>3,374</u></u>	<u><u>1,088</u></u>	<u><u>7,187</u></u>

Between the year ended March 31, 2016 and the year ended March 31, 2017, deposits and prepayments decreased from approximately HK\$16.5 million to approximately HK\$13.9 million primarily due to the decrease in prepaid auction venue rent of approximately HK\$2.0 million as our auction in Japan was held in February 2017 and such prepayment had been settled before our financial year end. Whereas, between the year ended March 31, 2017 and the year ended March 31, 2018, deposits and prepayments increased from approximately HK\$13.9 million to approximately HK\$23.7 million primarily due to (i) prepaid [REDACTED] expenses of approximately HK\$[REDACTED], (ii) increase of rental deposits of approximately HK\$1.3 million, (iii) increase of prepaid auction venue rent of approximately HK\$2.2 million, and (iv) increase of key management life insurance contracts of approximately HK\$2.4 million.

## FINANCIAL INFORMATION

### Trade and other payables and accruals

The following table sets forth the breakdown of our trade and other payables and accruals as of the dates indicated:

	As at March 31,		
	2016	2017	2018
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Trade payables	6,371	4,638	4,637
Payables to sellers in respect of auction and related business	167,723	192,942	348,035
Deposits received, other payables and accruals	<u>12,354</u>	<u>18,613</u>	<u>24,297</u>
	<u>186,448</u>	<u>216,193</u>	<u>376,969</u>
Less: Non-current portion:			
Other payables	(4,118)	(4,978)	(6,149)
Current portion	<u>182,330</u>	<u>211,215</u>	<u>370,820</u>

During the Track Record Period, trade payables represented obligation to pay for services from suppliers in the ordinary course of business, mainly includes payables of rental fees for the venue for art auction.

During the Track Record Period, payables to sellers in respect of the art auction and related business segment represented the purchase price of auction articles payable to sellers net of the seller’s commission receivables, which increased significantly between the year ended March 31, 2017 and the year ended March 31, 2018 primarily due to the outstanding purchase price of the premium Chinese painting as discussed above and different timing of the auctions held as discussed above.

Deposits received, other payables and accruals mainly included (i) auctions deposits received, (ii) accrued expenses primarily comprised of [REDACTED] expenses, and (iii) other payables such as employee benefits payable, bank charge payable, commission payable, withholding salaries tax payable and commission payable.

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## FINANCIAL INFORMATION

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Aging analysis of the trade payables at the respective balances sheet dates based on invoice date are as follows:

	As at March 31,		
	2016	2017	2018
	(HK\$'000)	(HK\$'000)	(HK\$'000)
Within 30 days	<u>6,371</u>	<u>4,638</u>	<u>4,637</u>

The following table sets forth our average trade payables turnover days for the years indicated:

	As of March 31,		
	2016	2017	2018
Average trade payables turnover days <sup>(note)</sup>	<u>49</u>	<u>64</u>	<u>52</u>

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*Note:*

The average trade payables turnover days for a year is the average of opening and closing gross trade payables balances divided by costs of services based on the art auction and related business segment only for that year and multiplied by 365 days.

During the Track Record Period, our average trade payables turnover days ranged from 49 days to 64 days. The relatively high average trade payables turnover days as of March 31, 2017 was mainly because there was a higher trade payables balance as of March 31, 2016.

At the Latest Practicable Date, our trade payables as of March 31, 2018 had been fully settled.

### Current Income Tax Liabilities

During the Track Record Period, our income tax liabilities decreased from approximately HK\$17.8 million for the year ended March 31, 2016, to approximately HK\$15.2 million for the year ended March 31, 2017 and then increased to approximately HK\$18.4 million for the year ended March 31, 2018.



## FINANCIAL INFORMATION

### RELATED PARTY TRANSACTIONS

It is the view of our Directors that each of the related party transactions set out in note 30 to the Accountants’ Report in Appendix I to this document were conducted in the ordinary and usual course of business and on normal commercial terms between the relevant parties. Certain of the related party transactions set out in note 30 to the Accountants’ Report in Appendix I to this document will continue after the [REDACTED]. For more details, please see the section headed “Continuing Connected Transactions” in this document.

As of the Latest Practicable Date, all related party balances have been settled.

As of the Latest Practicable Date, except for one guarantee provided by a related party which will be released prior to [REDACTED], all other guarantees provided by our related parties have been released and the agency commission charged by Bai Sheng Co., Ltd. has been ceased.

### CAPITAL EXPENDITURE

Our capital expenditures during the Track Record Period primarily comprised of expenditures on property, plant and equipment and intangible assets, which amounted to approximately HK\$5.1 million, approximately HK\$2.6 million and approximately HK\$5.4 million for the years ended March 31, 2016, 2017 and 2018, respectively.

### CAPITAL COMMITMENTS

There is no capital commitments at each balance sheet dates.

### OPERATING LEASE COMMITMENTS

We lease various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of March 31,		
	2016	2017	2018
	(HK\$'000)	(HK\$'000)	(HK\$'000)
No later than 1 year	5,214	4,659	7,975
Later than 1 year and no later than 2 years	4,340	–	7,104
Later than 2 years and no later than 5 years	–	–	2,324
<b>Total</b>	<b>9,554</b>	<b>4,659</b>	<b>17,403</b>

## FINANCIAL INFORMATION

### INDEBTEDNESS

#### Borrowings and Finance Lease Liabilities

The following table sets forth the breakdown of our borrowings and finance lease liabilities:

	As at March 31,		
	2016	2017	2018
	(HK\$'000)	(HK\$'000)	(HK\$'000)
<b>Non-current</b>			
Bank borrowings	7,336	6,304	4,093
Finance lease liabilities	647	1,191	793
	7,983	7,495	4,886
<b>Current</b>			
Bank borrowings	22,075	21,708	43,972
Finance lease liabilities	296	507	467
Loan payable to a third party	1,500	—	—
	23,871	22,215	44,439
<b>Total borrowings</b>	<b>31,854</b>	<b>29,710</b>	<b>49,325</b>

#### *Bank borrowings*

As at March 31, 2016, 2017 and 2018, all the bank borrowings are denominated in JPY.

As at March 31, 2016, 2017 and 2018, our banking facilities are guaranteed by (i) personal guarantee from Mr. Ando, (ii) corporate guarantee from a related party, and (iii) third party corporate guarantee.

As at the Latest Practicable Date, except for one guarantee provided by a related party which will be released prior to [REDACTED], all other guarantees provided by our related parties have been released.

The effective interest rates of bank borrowings as at March 31, 2016, 2017 and 2018 were 1.7% to 2.5%, 1.5% to 2.4% and 0.8% to 2.4%, respectively.

## FINANCIAL INFORMATION

Our bank borrowings are repayable as follows:

	As at March 31,		
	2016	2017	2018
	(HK\$'000)	(HK\$'000)	(HK\$'000)
Within 1 year	22,075	21,708	43,972
Between 1 and 2 years	3,504	2,438	1,462
Between 2 and 5 years	2,973	3,498	2,631
Over 5 years	859	368	—
	29,411	28,012	48,065

Bank borrowings between the year ended March 31, 2017 and the year ended March 31, 2018 increased from approximately HK\$28.0 million to approximately HK\$48.1 million because we have entered into two bank borrowings that are repayable within one year for the year ended March 31, 2018.

### *Finance lease liabilities*

*Gross finance lease liabilities — minimum lease payments*

	As at March 31,		
	2016	2017	2018
	(HK\$'000)	(HK\$'000)	(HK\$'000)
No later than 1 year	329	548	492
Later than 1 year and no later than 5 years	705	1,250	811
	1,034	1,798	1,303
Future finance charges on finance leases	(91)	(100)	(43)
<b>Present value of financial lease liabilities</b>	<b>943</b>	<b>1,698</b>	<b>1,260</b>

## FINANCIAL INFORMATION

The present value of finance lease liabilities are as follows:

	As at March 31,		
	2016	2017	2018
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
No later than 1 year	296	507	467
Later than 1 year and no later than 5 years	<u>647</u>	<u>1,191</u>	<u>793</u>
	<u>943</u>	<u>1,698</u>	<u>1,260</u>

As at March 31, 2016, 2017 and 2018, the obligation under hire purchase contracts are secured by our motor vehicles with carrying values of approximately HK\$1.1 million, HK\$1.7 million, and HK\$1.3 million, respectively. The rights to the leased asset are reverted to the lessors in the event of default of the lease liabilities by us.

### *Loan payable to a third party*

The loan balance was unsecured, interest bearing at 1% per annum, denominated in HK\$ and repayable within 1 year.

### *Balances with related parties*

As at March 31, 2016, 2017 and 2018, balances due from a related company were unsecured, bore interest at 1% per annum, denominated in JPY, and repayable on demand.

	As at March 31,		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due to the Controlling Shareholder			
– Mr. Ando	<u>2,014</u>	<u>2,016</u>	<u>11,686</u>
Amount due to a former director			
– Mr. Feng Heqing	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

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## FINANCIAL INFORMATION

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### Statement of Indebtedness

As of March 31, 2018 being the Latest Practicable Date for the purpose of this indebtedness statement, save as disclosed in the subsection entitled “— Borrowings and Finance Lease Liabilities” in this section, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities. Since March 31, 2018, there has been no material adverse change in our indebtedness.

### Contingent Liabilities

We had no material contingent liabilities outstanding as at March 31, 2016, 2017 and 2018.

### [REDACTED] EXPENSES

The [REDACTED] expenses in connection with the [REDACTED] primarily consist of [REDACTED] and professional fees and, assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the proposed [REDACTED] [REDACTED], are estimated to be HK\$[REDACTED]. During the Track Record Period, we incurred [REDACTED] expenses of HK\$[REDACTED], of which HK\$[REDACTED] was recognized in the consolidated statement of comprehensive income for the year ended March 31, 2018 and HK\$[REDACTED] was recognized as prepayments in the consolidated statement of financial position as at March 31, 2018 which will be accounted for as a deduction from equity upon [REDACTED]. Subsequent to the Track Record Period, we expect to further incur [REDACTED] expenses of HK\$[REDACTED] prior to and upon completion of the [REDACTED], of which (i) HK\$[REDACTED] is expected to be recognized as expenses in our consolidated statement of comprehensive income for the financial year ended March 31, 2019; and (ii) HK\$[REDACTED] is expected to be accounted for as a deduction from equity upon [REDACTED] under the relevant accounting standard. The actual amounts to be recognized to the consolidated statement of comprehensive income of our Group or to be capitalized are subject to adjustments based on audit and changes in variables and assumptions.

Prospective [REDACTED] should note that our financial results for the year ended March 31, 2019 will be adversely affected by the non-recurring [REDACTED] expenses described above, and may not be comparable to the financial performance of our Group in the past.

## FINANCIAL INFORMATION

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

### KEY FINANCIAL RATIOS

	As at March 31,		
	2016	2017	2018
Gross margin <sup>(1)</sup>	70.2%	72.4%	76.4%
Net profit margin <sup>(2)</sup>	14.8%	21.9%	25.4%
Adjusted net profit margin before [REDACTED] expenses <sup>(3)</sup>	14.8%	21.9%	31.6%
Return on equity <sup>(4)</sup>	32.9%	37.2%	43.6%
Return on assets <sup>(5)</sup>	7.4%	9.4%	9.3%
Current ratio <sup>(6)</sup>	1.3	1.4	1.2
Quick ratio <sup>(7)</sup>	1.2	1.3	1.2
Gearing ratio <sup>(8)</sup>	42.4%	27.6%	53.8%
Net debt to equity ratio <sup>(9)</sup>	N/A	N/A	N/A
Interest coverage <sup>(10)</sup>	142.2	156.9	233.9

*Notes:*

1. The calculation of gross margin is calculated by dividing gross profit by revenue and multiplying the resulting value by 100%.
2. The calculation of net profit margin is calculated by dividing net profit by revenue and multiplying the resulting value by 100%.
3. The calculation of adjusted net profit margin before [REDACTED] expenses is calculated by dividing net profit by revenue before [REDACTED] expenses and multiplying the resulting value by 100%.
4. The calculation of return on equity is calculated by dividing profit attributable to owners of the Company by average of the beginning and ending equity attributable to owners of the Company and multiplying the resulting value by 100%.
5. The calculation of return on assets is calculated by dividing net profit by average of the beginning and ending total assets and multiplying the resulting value by 100%.
6. The calculation of current ratio is calculated by dividing total current assets by total current liabilities.
7. The calculation of quick ratio is calculated by dividing current assets net of inventories by current liabilities.
8. The calculation of gearing ratio is calculated by dividing total interest-bearing debt by total equity and multiplying the resulting value by 100%.
9. The calculation of the net debt to equity ratio is calculated by dividing total interest-bearing debt net of cash and bank balances and bank deposits with original maturities over three months by total equity and multiplying the resulting value by 100%.
10. The calculation of the interest coverage is calculated by dividing profit before interest and tax by interest costs.

## **FINANCIAL INFORMATION**

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### ***Return on equity***

From the year ended March 31, 2016 to the year ended March 31, 2017, our return on equity increased from 32.9% to 37.2% and further increased to 43.6% for the year ended March 31, 2018, primarily because our profit attributable to owners of our Company increased as the reasons discussed above.

### ***Return on assets***

From the year ended March 31, 2016 to the year ended March 31, 2017, our return on assets increased because our net profit increased for the reasons discussed above. From the year ended March 31, 2017 to the year ended March 31, 2018, our return on assets remained stable.

### ***Current ratio***

From the year ended March 31, 2016 to the year ended March 31, 2018, our current ratio remained stable, ranging from 1.2 to 1.4.

### ***Quick ratio***

During the Track Record Period, our quick ratio remained stable.

### ***Gearing ratio***

From the year ended March 31, 2016 to the year ended March 31, 2017, our gearing ratio decreased because (i) our borrowings decreased and (ii) our total equity increased. From the year ended March 31, 2017 to the year ended March 31, 2018, our gearing ratio increased because our borrowings increased.

### ***Net debt to equity ratio***

Net debt to equity ratio was not applicable during the Track Record Period because we were in net cash position.

### ***Interest coverage***

During the Track Record Period, our interest coverage increased because our operating profits increased.

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

We are exposed to market risks from changes in market rates and prices, such as interest rates, credit and liquidity.

Details of the risks to which we are exposed to are set out in note 3 to the Accountant's Report, the text of which is set out in Appendix I to this document.

## **DIVIDEND AND DIVIDEND POLICY**

No dividend has been paid or declared by us during the Track Record Period.

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## **FINANCIAL INFORMATION**

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As of the Latest Practicable Date, we did not have any policy for any prescribed percentage of our after-tax profit to be declared as dividend. Our Directors intend to strike a balance between maintaining sufficient capital to grow our business and rewarding our Shareholders. The payment and the amount of any dividends, if paid, will depend on, among other things, our results of operations, cash flow, financial condition, and statutory and regulatory restrictions on the payment of dividends by us.

### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

Our Directors have confirmed that as of the Latest Practicable Date, there were no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### **DISTRIBUTABLE RESERVES**

We had reserve available for distribution to the Shareholders amounting to approximately HK\$149.1 million as at March 31, 2018.

### **UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS PER SHARE**

Please see the section “Unaudited pro forma financial information” in Appendix II of this document for our unaudited pro forma adjusted net tangible assets per Share.

### **RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE**

On April 24, 2018 and April 25, 2018, (i) our Company as issuer, (ii) the Pre-[REDACTED] Investors as investors, and (iii) Mr. Ando as guarantor entered into several subscription agreements for the subscription of the Convertible Notes in the total amount of approximately HK\$38.8 million for the benefit of long-term business development of our Group. For more details, please see the subsection headed “— Pre-[REDACTED] Investments” of this section and the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments” of this document.

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this document, there has been no material adverse change in our financial position or prospects since March 31, 2018 and there is no event since March 31, 2018 which would materially affect the information shown in the Accountant’s Report set out in Appendix I to this document. Our Directors consider that all information necessary for the public to make an informed assessment of the activities and financial position of our Group has been included in this document.



## FUTURE PLANS AND USE OF [REDACTED]

### FUTURE PLANS

We strive to become one of the internationally well-known auction houses with Chinese and Japanese art auction business in the future. Please see the section headed “Business — Strategies” of this document for a detailed description of our future plans.

### USE OF [REDACTED]

We estimate that the aggregate net [REDACTED] to our Company from the [REDACTED] (after deducting [REDACTED] fees and estimated expenses in connection with the [REDACTED] payable by us and assuming that the [REDACTED] is not exercised and an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the [REDACTED] stated in this document) will be approximately HK\$[REDACTED]. We currently intend to apply such net [REDACTED] for the following purposes:

- a. approximately [REDACTED]%, or HK\$[REDACTED], will be used for strengthening and expanding our existing auction business. The intended allocation of this portion of the net [REDACTED] is primarily as follows:

<u>Intended Applications</u>	<u>Percentage of [REDACTED]</u>
i. setting up new representative offices in Beijing and California as part of our effort to expand in the global artwork auction markets so as to enable us to extend our business network and geographical presence in other cities with developed markets. As a result, we can expand our sourcing channel to acquire more high quality Chinese artworks and attract more potential international customers to attend our auctions;	[REDACTED]% or HK\$ [REDACTED]
ii. increasing the number of sourcing activities in major Asian cities including (a) two sourcing events annually in each of Taiwan and Hong Kong, one sourcing event annually in each of Malaysia and Singapore, and three more sourcing events in Japan annually; and (b) artwork special exhibitions or tea ceremony focusing on exhibition of tea wares and tea taste and appreciation and small-scale appraisal fairs;	[REDACTED]% or HK\$ [REDACTED]
iii. increasing the number of preview exhibitions, including (a) two preview exhibitions in each of Shanghai, Beijing, Xiamen, Taiwan and Hong Kong every year to promote market interests in our auctions; and (b) engagement of external consultants to issue market feasibility study report for the Group’s reference in organizing such exhibitions in the targeted market;	[REDACTED]% or HK\$ [REDACTED]

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## FUTURE PLANS AND USE OF [REDACTED]

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<u>Intended Applications</u>	<u>Percentage of [REDACTED]</u>
------------------------------	---------------------------------

- |  |                                      |
|--|--------------------------------------|
| iv. holding events featuring cultural exchange, small-scale events and activities for premium customers; and | [REDACTED]%<br>or HK\$<br>[REDACTED] |
|--|--------------------------------------|

For further details for our future plans with respect to (i), (ii), (iii) and (iv) above, please see sections headed “Business — Strategies — Further strengthening our leading position and market share in the Chinese and Japanese art auction market in Hong Kong and Japan, and enhance our brand recognition and awareness” and “Business — Strategies — Targeting to expand business footprint to other potential markets with an aim to establish and enhance brand image and brand influence in other major Asian cities and the global market” in this document.

- |  |                                      |
|--|--------------------------------------|
| v. expanding our auction business scope to include contemporary artwork and jewelry. In line with our expansion of business scope to include such artworks, we intend to (i) set up two departments each focusing on the contemporary artwork and jewelry, (ii) recruit four experts with expertise in the fields of contemporary artwork or jewelry in each of the two departments, and (iii) add extra auction sessions for contemporary artwork and jewelry in each of Hong Kong and Japan. Please see section headed “Business — Diversifying our business scope by venturing into the field of contemporary artwork and jewelry” in this document for more details. | [REDACTED]%<br>or HK\$<br>[REDACTED] |
| b. approximately [REDACTED]%, or HK\$[REDACTED], will be used for enhancing our marketing and promotional activities to enhance brand reputation, for instance, increasing publicity on social platforms such as Facebook and Wechat, adding more online advertisements in search engines such as Google and Yahoo, and expanding marketing coverage on television, newspaper, and magazine;   |                                      |
| c. approximately [REDACTED]%, or HK\$[REDACTED], will be used for recruiting high caliber managers and experts. In particular, we intend to recruit additional Internal Appraisal Experts in appraising artworks, which needs relatively high costs of maintaining a team of stable and professional experts. Please see section headed “Business — Recruiting high caliber managers and experts and attract, motivate and retain quality employees to strengthen both the management and operating teams with a view to support the sustainable growth” in this document for more details;  |                                      |
| d. approximately [REDACTED]%, or HK\$[REDACTED], will be used for developing the Group’s ERP system covering and integrating various functions including but not limited to auction operation, management of customers and suppliers, sales and marketing, storerooms and accounting; and  |                                      |
| e. approximately [REDACTED]%, or HK\$[REDACTED], will be used to supplement our working capital and for general corporate purposes.  |                                      |

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## FUTURE PLANS AND USE OF [REDACTED]

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If the [REDACTED] is exercised in full, the net [REDACTED] of the [REDACTED] would increase to approximately HK\$[REDACTED] (based on the mid-point [REDACTED] of HK\$[REDACTED] per Share). We intend to apply the additional net [REDACTED] to the above uses in the proportions stated above.

If the [REDACTED] is determined at the highest point of the stated [REDACTED], the net [REDACTED] to our Company would be increased by approximately HK\$[REDACTED]. If the [REDACTED] is determined at the lowest point of the stated range, the net [REDACTED] to our Company would be decreased by approximately HK\$[REDACTED]. The above allocation of the net [REDACTED] will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the [REDACTED] stated in this document.

To the extent that our net [REDACTED] are not sufficient to fund the purposes set out above, we intend to fund the balance through a variety of means, including cash generated from operations, bank loans and other borrowings.

In the event that any of our projects do not proceed as planned, including as a result of circumstances such as changes in government policies that would render any of our plans not commercially viable, or force majeure, our Directors will carefully evaluate the situation and may reallocate such funds for other purposes.

To the extent that the net [REDACTED] from the [REDACTED] are not immediately used for the purposes described above and to the extent permitted by the relevant laws and regulations, they will be placed in short term demand deposits with banks in Hong Kong and/or through money market instruments.

We will issue an appropriate announcement if there is any material change to the above proposed use of [REDACTED].

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**



[REDACTED]

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[REDACTED]

## **Restrictions and undertakings to the Stock Exchange under the Listing Rules**

### ***(A) Restrictions imposed on our Company***

Under Rule 10.08 of the Listing Rules, no further Shares or other securities convertible into our equity securities (whether or not of a class already listed) issue within six months from the [REDACTED] (whether or not such issue of Shares or our securities will be completed within six months from the [REDACTED]), except in the circumstances provided under Rule 10.08 of the Listing Rules.

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

### **SOLE SPONSOR’S INDEPENDENCE**

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

**[REDACTED]**

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**[REDACTED]**



**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

**STRUCTURE OF THE [REDACTED]**

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[REDACTED]



**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

## **HOW TO APPLY FOR [REDACTED]**

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[REDACTED]

## **HOW TO APPLY FOR [REDACTED]**

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[REDACTED]

## **HOW TO APPLY FOR [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

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[REDACTED]

## **HOW TO APPLY FOR [REDACTED]**

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## **HOW TO APPLY FOR [REDACTED]**

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## **HOW TO APPLY FOR [REDACTED]**

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## **HOW TO APPLY FOR [REDACTED]**

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## **HOW TO APPLY FOR [REDACTED]**

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[REDACTED]

## **HOW TO APPLY FOR [REDACTED]**

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[REDACTED]

## **HOW TO APPLY FOR [REDACTED]**

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[REDACTED]

## **HOW TO APPLY FOR [REDACTED]**

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**[REDACTED]**



## **HOW TO APPLY FOR [REDACTED]**

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[REDACTED]

## **HOW TO APPLY FOR [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

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[REDACTED]

## **HOW TO APPLY FOR [REDACTED]**

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[REDACTED]

## **HOW TO APPLY FOR [REDACTED]**

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**[REDACTED]**

## APPENDIX I

## ACCOUNTANT’S REPORT

*The following is the text of a report set out on pages I-1 to I-2, received from the Company’s reporting accountant, [PricewaterhouseCoopers], Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of HKSIR 200 Accountants’ Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*

*[Letterhead of PricewaterhouseCoopers]*

*[DRAFT]*

### **ACCOUNTANT’S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TOKYO CHUO AUCTION HOLDINGS LIMITED (FORMERLY KNOWN AS TOKYO CHUO AUCTION (HONG KONG) CO., LIMITED) AND CMBC INTERNATIONAL CAPITAL LIMITED**

#### ***Introduction***

We report on the historical financial information of Tokyo Chuo Auction Holdings Limited (the “Company”, formerly known as Tokyo Chuo Auction (Hong Kong) Co., Limited) and its subsidiaries (together, the “**Group**”) set out on pages I-3 to I-71, which comprises the consolidated balance sheets as at 31 March 2016, 2017 and 2018, the Company balance sheets as at 31 March 2016, 2017 and 2018, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years then ended (the “**Track Record Period**”) and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages I-3 to I-71 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [*document date*] (the “**Document**”) in connection with the [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

#### ***Directors’ responsibility for the Historical Financial Information***

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

#### ***Reporting accountant’s responsibility***

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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**APPENDIX I****ACCOUNTANT’S REPORT**

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Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

***Opinion***

In our opinion the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the financial position of the Company as at 31 March 2016, 2017 and 2018 and the consolidated financial position of the Group as at 31 March 2016, 2017 and 2018 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance*****Adjustments***

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

***Dividends***

We refer to Note 15 to the Historical Financial Information which states that no dividends have been paid by Tokyo Chuo Auction Holdings Limited in respect of the Track Record Period.

**[PricewaterhouseCoopers]**

*Certified Public Accountants*

Hong Kong

**[Date]**

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**I HISTORICAL FINANCIAL INFORMATION OF THE GROUP**

**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountant’s report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA (“**Underlying Financial Statements**”).

The Historical Financial Information is presented in HK dollars and all values are rounded to the nearest thousand (HK\$’000) except when otherwise indicated.

**(a) Consolidated Income Statements**

	<i>Note</i>	<b>Year ended 31 March</b>		
		<b>2016</b>	<b>2017</b>	<b>2018</b>
		<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Revenue</b>	6	138,613	148,048	173,266
Costs of services	9	(37,085)	(31,444)	(32,797)
Costs of sales of goods	9	(4,232)	(9,436)	(8,150)
<b>Gross profit</b>		97,296	107,168	132,319
Other (losses)/gains, net	7	(358)	259	(433)
Other income	8	4,119	2,691	2,568
Selling and distribution expenses	9	(32,984)	(31,574)	(26,765)
Administrative expenses	9	(37,654)	(37,283)	(49,468)
<b>Operating profit</b>		30,419	41,261	58,221
Finance income	10	18	6	10
Finance costs	10	(214)	(263)	(249)
Finance costs, net	10	(196)	(257)	(239)
<b>Profit before income tax</b>		30,223	41,004	57,982
Income tax expense	11	(9,644)	(8,641)	(14,053)
<b>Profit for the year</b>		20,579	32,363	43,929
<b>Profit/(loss) attributable to:</b>				
Owners of the Company		18,497	30,780	44,063
Non-controlling interests		2,082	1,583	(134)
		20,579	32,363	43,929
<b>Earnings per share for profit attributable to owners of the Company</b>				
Basic and diluted	12	185	308	441



**APPENDIX I**

**ACCOUNTANT’S REPORT**

**(b) Consolidated Statements of Comprehensive Income**

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Profit for the year</b>	20,579	32,363	43,929
<b>Other comprehensive income:</b>			
<i>Item that may be reclassified</i>			
<i>subsequently to profit or loss</i>			
Currency translation differences	3,790	297	4,089
<b>Total other comprehensive income</b>			
<b>for the year, net of tax</b>	3,790	297	4,089
<b>Total comprehensive income for the year</b>	<u>24,369</u>	<u>32,660</u>	<u>48,018</u>
<b>Total comprehensive income for the year</b>			
<b>attributable to:</b>			
Owners of the Company	21,777	31,040	47,721
Non-controlling interests	2,592	1,620	297
	<u>24,369</u>	<u>32,660</u>	<u>48,018</u>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

(c) Consolidated Balance Sheets

		<b>As at 31 March</b>			
		<u>2016</u>	<u>2017</u>	<u>2018</u>	
<i>Note</i>		<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	
<b>ASSETS</b>					
<b>Non-current assets</b>					
	Property, plant and equipment	16	8,600	9,542	13,400
	Intangible assets		590	548	558
	Deferred income tax assets	18	2,693	2,058	876
	Deposits and prepayments	21	13,114	12,851	16,506
	Long-term bank deposits	22	255	–	–
			<u>25,252</u>	<u>24,999</u>	<u>31,340</u>
			-----	-----	-----
<b>Current assets</b>					
	Inventories	19	21,442	13,758	23,050
	Trade and other receivables	20	71,541	106,112	423,661
	Deposits and prepayments	21	3,374	1,088	7,187
	Amount due from a related company	30	2,070	13,899	14,716
	Short-term bank deposits	22	–	341	–
	Cash and cash equivalents	22	192,486	213,863	70,382
			<u>290,913</u>	<u>349,061</u>	<u>538,996</u>
			-----	-----	-----
	<b>Total assets</b>		<u>316,165</u>	<u>374,060</u>	<u>570,336</u>
<b>EQUITY</b>					
<b>Equity attributable to owners of the Company</b>					
	Share capital	23	–	–	–
	Reserves	24	67,267	98,307	103,669
			<u>67,267</u>	<u>98,307</u>	<u>103,669</u>
	<b>Non-controlling interests</b>		<u>7,808</u>	<u>9,428</u>	<u>6,740</u>
	<b>Total equity</b>		<u>75,075</u>	<u>107,735</u>	<u>110,409</u>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

		<b>As at 31 March</b>			
		<u>2016</u>	<u>2017</u>	<u>2018</u>	
<i>Note</i>		<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
	Other payable	26	4,118	4,978	6,149
	Finance lease liabilities	25	647	1,191	793
	Borrowings	25	7,336	6,304	4,093
	Deferred income tax liabilities	18	1,992	2,187	2,591
			<u>14,093</u>	<u>14,660</u>	<u>13,626</u>
			-----	-----	-----
<b>Current liabilities</b>					
	Trade and other payables and accruals	26	182,330	211,215	370,820
	Amount due to the Controlling Shareholder	30	2,014	2,016	11,686
	Amount due to a former director	30	1,000	1,000	1,000
	Finance lease liabilities	25	296	507	467
	Borrowings	25	23,575	21,708	43,972
	Current income tax liabilities		17,782	15,219	18,356
			<u>226,997</u>	<u>251,665</u>	<u>446,301</u>
			-----	-----	-----
	<b>Total liabilities</b>		<u>241,090</u>	<u>266,325</u>	<u>459,927</u>
			-----	-----	-----
	<b>Total equity and liabilities</b>		<u>316,165</u>	<u>374,060</u>	<u>570,336</u>
			=====	=====	=====

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**(d) Balance Sheets**

		<b>As at 31 March</b>			
		<u>2016</u>	<u>2017</u>	<u>2018</u>	
<i>Note</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
<b>ASSETS</b>					
<b>Non-current assets</b>					
	Investment in subsidiaries	17	–	–	45,344
	Property, plant and equipment	16	788	614	4,042
	Deposits and prepayments	21	–	–	1,073
		788	614	–	50,459
		-----	-----	-----	
<b>Current assets</b>					
	Inventories	19	3,100	3,100	3,100
	Trade and other receivables	20	164	19,556	222,119
	Deposits and prepayments	21	2,647	346	2,576
	Amount due from a subsidiary	30	–	–	3,232
	Cash and cash equivalents	22	47,318	79,772	33,824
		53,229	102,774	264,851	264,851
		-----	-----	-----	
	<b>Total assets</b>	<u>54,017</u>	<u>103,388</u>	<u>315,310</u>	
<b>EQUITY</b>					
<b>Equity attributable to owners of the Company</b>					
	Share capital	23	–	–	–
	Reserves	24	15,828	43,338	80,975
	<b>Total equity</b>	<u>15,828</u>	<u>43,338</u>	<u>80,975</u>	
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
	Finance lease liabilities	25	487	329	184
		-----	-----	-----	
<b>Current liabilities</b>					
	Other payables and accruals	26	32,742	52,192	211,410
	Amounts due to a subsidiary	30	302	411	4,357
	Amount due to the Controlling Shareholder	30	1,753	1,753	11,686
	Amount due to a former director	30	1,000	1,000	1,000
	Finance lease liabilities	25	158	158	163
	Borrowings	25	1,500	–	–
	Current income tax liabilities		247	4,207	5,535
		37,702	59,721	234,151	234,151
		-----	-----	-----	
	<b>Total liabilities</b>	<u>38,189</u>	<u>60,050</u>	<u>234,335</u>	
		-----	-----	-----	
	<b>Total equity and liabilities</b>	<u>54,017</u>	<u>103,388</u>	<u>315,310</u>	

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**(e) Consolidated Statements of Changes in Equity**

	Attributable to owners of the Company					Total equity HK\$'000
	Share capital HK\$'000	Other reserves (Note 24) HK\$'000	Retained earnings HK\$'000	Sub-total HK\$'000	Non- controlling interests HK\$'000	
<b>Balance as at 1 April 2015</b>	–	(9,404)	54,437	45,033	4,145	49,178
<b>Comprehensive income</b>						
– Profit for the year	–	–	18,497	18,497	2,082	20,579
<b>Other comprehensive income</b>						
– Currency translation differences	–	3,280	–	3,280	510	3,790
<b>Total comprehensive income for the year</b>	–	3,280	18,497	21,777	2,592	24,369
Share-based payment transactions (Note 14)	–	–	457	457	1,071	1,528
<b>Balance at 31 March 2016</b>	–	(6,124)	73,391	67,267	7,808	75,075
<b>Balance as at 1 April 2016</b>	–	(6,124)	73,391	67,267	7,808	75,075
<b>Comprehensive income</b>						
– Profit for the year	–	–	30,780	30,780	1,583	32,363
<b>Other comprehensive income</b>						
– Currency translation differences	–	260	–	260	37	297
<b>Total comprehensive income for the year</b>	–	260	30,780	31,040	1,620	32,660
<b>Balance at 31 March 2017</b>	–	(5,864)	104,171	98,307	9,428	107,735
<b>Balance as at 1 April 2017</b>	–	(5,864)	104,171	98,307	9,428	107,735
<b>Comprehensive income</b>						
– Profit/(loss) for the year	–	–	44,063	44,063	(134)	43,929
<b>Other comprehensive income</b>						
– Currency translation differences	–	3,658	–	3,658	431	4,089
<b>Total comprehensive income for the year</b>	–	3,658	44,063	47,721	297	48,018
Transaction with non-controlling interests	–	–	816	816	(2,985)	(2,169)
Deemed distribution to shareholders (Note 24)	–	(43,175)	–	(43,175)	–	(43,175)
<b>Balance at 31 March 2018</b>	–	(45,381)	149,050	103,669	6,740	110,409

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**(f) Consolidated Statements of Cash Flows**

	<i>Note</i>	<b>Year ended 31 March</b>		
		<b>2016</b>	<b>2017</b>	<b>2018</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cash flow from operating activities</b>				
Cash generated from/(used in) operations	28(a)	47,445	36,501	(102,164)
Income tax paid		(7,657)	(10,688)	(10,096)
<b>Net cash generated from/(used in) operating activities</b>		<u>39,788</u>	<u>25,813</u>	<u>(112,260)</u>
<b>Cash flow from investing activities</b>				
Purchase of property, plant and equipment		(4,300)	(1,365)	(5,341)
Purchase of intangible assets		–	–	(28)
Investment in key management life insurance contracts		(2,156)	(1,867)	(1,836)
Receipts upon termination of key management life insurance contracts		–	2,036	–
(Increase)/decrease in short-term bank deposits		–	(341)	341
(Increase)/decrease in long-term bank deposits		(78)	255	–
Interest received		18	6	10
<b>Net cash used in investing activities</b>		<u>(6,516)</u>	<u>(1,276)</u>	<u>(6,854)</u>
<b>Cash flow from financing activities</b>				
Repayment of finance lease liabilities		(252)	(453)	(493)
Proceeds from bank borrowings		22,631	21,388	42,354
Repayment of bank borrowings		(11,091)	(23,054)	(24,704)
Repayment of loan from a third party		–	(1,500)	–
Interest paid		(214)	(263)	(249)
Payment of [REDACTED] expenses		–	–	[REDACTED]
Transaction with non-controlling interests		–	–	(2,169)
Deemed distribution to shareholders		–	–	(43,175)
<b>Net cash generated from/ (used in) financing activities</b>		<u>11,074</u>	<u>(3,882)</u>	<u>(29,485)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>44,346</u>	<u>20,655</u>	<u>(148,599)</u>
Cash and cash equivalents at beginning of the year		142,727	192,486	213,863
Exchange gains on cash and cash equivalents		5,413	722	5,118
<b>Cash and cash equivalents at end of the year</b>	22	<u>192,486</u>	<u>213,863</u>	<u>70,382</u>

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### II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

#### 1. General information, reorganisation and basis of presentation

##### 1.1 General information

The Company was incorporated in Hong Kong on 11 July 2013 with limited liability. The address of the Company’s registered office is Room 2601, 26/F, Wing on Centre, No 111 Connaught Road Central, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as “**the Group**”) are principally engaged in the provision of auction and related services as well as artwork sales in Hong Kong and Japan (the “[REDACTED] **Business**”). As at the date of this report and during the Track Record Period, the Company is 100% owned by Mr. Ando Shokei (“Mr. Ando” or “**Controlling Shareholder**”).

The financial information contained in the Accountant’s Report does not constitute the statutory annual financial statements of the Company for any of the financial years ended 31 March 2016, 2017 and 2018.

As the Company was a private company in all three years, it was not required to deliver and has not delivered its financial statements for the financial years ended 31 March 2016, 2017 and 2018 to the Registrar of Companies in Hong Kong.

The Company’s auditor has reported on these financial statements for all the years ended 31 March 2016 and 2017. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (cap. 622).

##### 1.2 Reorganisation

Immediately prior to the Reorganisation (as defined below) and during the Track Record Period, the [REDACTED] Business was operated by the Company and Tokyo Chuo Auction Co., Ltd. (“TCA Japan”, a company incorporated in Japan). In preparation for the [REDACTED] (“[REDACTED]”) and [REDACTED] of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “[REDACTED]”), a group reorganisation (“**the Reorganisation**”) was undertaken which involved the following steps:

- (a) Prior to 19 December 2017, Mr. Ando held 100% beneficial shareholding interest in the Company, 51% of which was registered under the name of Mr. Feng Heqing (“**Mr. Feng**”) who held the shares in trust for Mr. Ando. Mr. Feng is the father-in-law of Mr. Ando. On 19 December 2017, Mr. Feng transferred back the shareholding interest in the Company to Mr. Ando at nil consideration, and the trust arrangement ceased. Thereafter, the Company is wholly owned by Mr. Ando.
- (b) Prior to 30 August 2017, Mr. Ando held 81.4% shareholding interest in TCA Japan, the remaining interest of which was held as to 5.6% by Mrs. Ando Eri (“**Mrs. Ando**”; wife of Mr. Ando), 3% by Mr. Xie Jinglin (“**Mr. Xie**”), 2% by Mr. Nashida Masayuki (“**Mr. Nashida**”), 5% by Mr. Katsu Bunkai (“**Mr. Katsu**”) and 3% by Mr. Yodo Hiroaki (“**Mr. Yodo**”).

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On 30 August 2017, the Company acquired the 81.4% and 5.6% equity interest in TCA Japan from Mr. Ando and Mrs. Ando at cash consideration of JPY565,848,030 and JPY38,928,120, respectively.

- (c) On 29 January 2018, the Company acquired the 3% and 2% equity interest in TCA Japan from Mr. Xie and Mr. Nashida at cash consideration of JPY18,168,870 and JPY12,112,580, respectively.
- (d) On 19 May 2016, Shanghai Shengjia Culture Development Company Limited (“**Shanghai Shengjia**”) was incorporated in the People’s Republic of China (the “**PRC**”), and is 100% owned by TCA Japan. Shanghai Shengjia is principally engaged in promotion and related activities for the Group in the PRC.
- (e) On 13 February 2018, Tokyo Chuo Auction Hongkong Company Limited (“**TCA HK**”) was incorporated in Hong Kong. The Company subscribed for one ordinary share in TCA HK at HK\$1.00 and therefore held 100% shareholding interest in TCA HK. TCA HK has no operation during the Track Record Period and plans to engage in auction and related services and artwork sales in the future.

Upon completion of the Reorganisation and as at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Company name	Country/place and date of incorporation/ establishment	Registered/ Issued and paid-up capital	Effective Interest Held	Principal activities/place of operation	Note
<b>Directly owned:</b>					
Tokyo Chuo Auction Co., Ltd. (“ <b>TCA Japan</b> ”)	Japan 1 November 2010	Paid-in Capital of JPY 50,000,000	92%	Provision of auction related services and artwork sales	(ii)
Tokyo Chuo Auction Hongkong Company Limited (“ <b>TCA HK</b> ”)	Hong Kong 13 February 2018	Paid-in Capital of HK\$1	100%	For provision of auction and related services and artwork sales in the future	(iii)
<b>Indirectly owned:</b>					
Shanghai Shengjia Culture Development Company Ltd.	PRC 19 May 2016	Paid-in Capital of RMB245,580	92%	Promotion and related activities	(ii)

*Notes:*

- (i) The statutory financial statements of the Company during the years ended 31 March 2016 and 2017 were audited by Morrison Heng CPA Limited, certified public accountants in Hong Kong.
- (ii) No audited financial statements have been issued for these entities as there are no statutory audit requirement in the places of incorporation of these entities.
- (iii) No audited financial statements have been issued for TCA HK in the Track Record Period as it was newly incorporated in February 2018.



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**1.3 Basis of presentation**

The companies now comprising the Group engage in the provision of auction and related services and artwork sales and were under the common control of Mr. Ando, the Controlling Shareholder, immediately before and after the Reorganisation. Accordingly, the Reorganisation is regarded as a business combination under common control, and for the purpose of this report, the Historical Financial Information has been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants.

Accordingly, the Historical Financial Information has been prepared by including the historical financial information of the companies comprising the Group as if the current group structure had been in existence throughout the periods presented, or since the date when the combining companies first came under the control of Mr. Ando, whichever is a shorter period.

The net assets of the combining companies were combined using the existing book values from Mr. Ando’s perspective. No amount is recognised in consideration for goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control, to the extent of the continuation of the controlling party’s interest.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

**2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Basis of preparation***(i) Compliance with HKFRS and HKCO*

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) and requirements of the Hong Kong Companies Ordinance Cap. 622.

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*(ii) New and amended standards adopted by the Group*

The following are new and amended standards have been issued but not effective during the Track Record Period and have not been early adopted by the Group:

		<b>Effective for annual periods beginning on or after</b>
Annual Improvements Project HKFRS 1 and HKAS 28 (amendments)	Annual Improvements 2014-2016 Cycle	1 January 2018
HKFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 4 (amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts (amendments)	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 9 (amendments)	Prepayment features with negative compensation	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 15 (amendments)	Clarifications to HKFRS 15	1 January 2018
HKAS 40 (amendments)	Transfers of Investment Property	1 January 2018
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration (new interpretation)	1 January 2018
HK(IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not yet determined by HKICPA

***HKFRS 9 “Financial Instruments”***

*Nature of change*

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

*Impact*

HKFRS 9 does not need to be applied until financial periods beginning on or after 1 January 2018 but is available for early adoption. The Group does not expect to adopt the new standard before 1 April 2018.

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Based on the Group’s current assessment, it is not expected that this new standard would have significant impact of the classification and measurement of the Group’s financial assets as the Group has no financial assets that classified as fair value through other comprehensive income (“FVOCI”).

There will be no impact on the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed. The new hedge accounting rules are not expected to have significant impact to the Group given that the Group does not have any hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (“ECL”) rather than only incurred credit losses as in the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 “Revenue from Contracts with Customers”, lease receivables, loan commitments and certain financial guarantee contracts. Management expects no material impact as a result of the new impairment model.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group will continue to make detailed assessments of the effect from the new standard.

### *Date of adoption by Group*

The standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 April 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

### ***HKFRS 15 “Revenue from Contracts with Customers”***

#### *Nature of change*

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

#### *Impact*

Management has assessed the effects of applying this new standard on the Group’s financial statements and has considered no significant areas that will be affected.

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### *Date of adoption by Group*

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption, if any, will be recognised in retained earnings as of 1 April 2018 and that comparatives will not be restated.

### **HKFRS 16 “Leases”**

#### *Nature of change*

HKFRS 16 was issued in May 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

#### *Impact*

The standard will affect primarily the accounting for the Group’s operating leases. As at each of the reporting date during the Track Record Period, the Group has non-cancellable operating lease commitments of HK\$9,554,000, HK\$4,659,000 and HK\$17,403,000 respectively.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group’s profit or loss and classification of cash flows going forward.

#### *Mandatory application date/Date of adoption by group*

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

## **2.2 Subsidiaries**

### **2.2.1 Merger accounting for common control combination**

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties’ perspective. No amount is recognised in consideration for goodwill or excess of acquirers’ interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party’s interest.

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The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

**2.2.2 Consolidation**

A subsidiary is an entity (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Except for the Reorganisation, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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### 2.2.3 Separate financial information

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the “CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive directors of the Group that makes strategic decisions.

### 2.4 Foreign currency translation

#### (a) *Functional and presentation currency*

Items included in the Historical Financial Information of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “**functional currency**”). The Historical Financial Information are presented in HK\$ which is the Company’s functional and the Group’s presentation currency.

#### (b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and bank balances are presented in the consolidated income statement within ‘other (losses)/gains, net’.

#### (c) *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:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average 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 rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

### 2.5 Investment in insurance contracts

The Group invests in certain key management insurance contracts, which contain both investment and insurance elements. The life insurance contracts are initially recognised at the amount of premium paid, and subsequently measured at each balance sheet date at its cash surrender value. Changes to the cash surrender value at each balance sheet date will be recognised in profit or loss as "other (losses)/gains, net". In the event of death of the insured person, the surrender of the policies, or the policies mature, the investment will be de-recognised and any resulting gains/losses will be recognised in profit or loss.

### 2.6 Property, plant and equipment

Property, plant and equipment, other than freehold land, are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	2%
Leasehold improvements	Shorter of remaining period of the lease or useful life of 5 years
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within “other (losses)/gains, net” in the consolidated income statements.

**2.7 Construction in progress**

Construction in progress represents buildings under construction. Construction in progress is stated at cost, which includes costs of construction and other costs directly attributable to the construction capitalised during the construction period, less accumulated impairment losses. No depreciation is provided in respect of construction in progress until such time as the relevant assets are completed and ready for intended use. Upon completion, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy stated in Note 2.6.

**2.8 Intangible assets****(a) Computer software**

Computer software purchased from vendors are initially shown at historical cost and subsequently amortised over their estimated useful lives, which does not exceed three years.

**(b) Club membership**

Club membership is amortised over its useful life of 20 years and is stated at cost less accumulated amortisation and impairment loss.

**2.9 Financial assets****(a) Classification**

The Group classifies its financial assets in the category of loans and receivables. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets. The Group’s loans and receivables comprise “trade receivables”, “deposits”, “other receivables”, “amount due from a related company”, “long-term bank deposits”, “short-term bank deposits” and “cash and cash equivalents”.

**(b) Recognition and measurement**

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights



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to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

### *(c) Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

### **2.10 Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

#### *Assets carried at amortised cost*

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in consolidated income statement.

### **2.11 Impairment of non-financial assets**

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### **2.12 Inventories**

Inventories represented artworks that opportunistically purchased by the Group and are stated at the lower of cost and net realisable value. Costs of purchase of these artworks are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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**2.13 Trade and other receivables**

Trade receivables represent commission receivables and related services fees receivables that are due from buyers and sellers as a result of the auctions conducted by the Group. Trade receivables also included those arising from direct artwork sales conducted by the Group. The Group grants credit period of 7 days for commission receivables and 30 days for receivables from artwork sales. Receivables are generally due for settlement within credit periods granted by the Group and are all classified as current.

Upon completing the auction, the Group is obliged to collect from the buyers the hammer price amounts for artworks sold. Such receivables are classified as “receivables from buyers in respect of auction and related business” and due for settlement within 7 days of recognition according to the terms of the contracts with the buyers.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

**2.14 Cash and bank balances**

For the purpose of presentation in the statement of cash flows, cash and bank balances includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**2.15 Share capital**

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.

**2.16 Trade and other payables**

Trade payables represent obligations to pay for services from suppliers in the ordinary course of business and amounts due to sellers of artworks purchased by the Group for trading purpose.

Upon completing the auction, the Group is required to remit the hammer price amounts for artworks sold to sellers upon receiving the corresponding amounts from the buyer and such payables are classified as “payables to sellers in respect of auction and related business”. These unpaid balances as at period end are unsecured and are usually paid within 35 days upon receiving the hammer price amount. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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**2.17 Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fees are deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fees are capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

**2.18 Borrowing costs**

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**2.19 Current and deferred income tax**

The income tax expense or credit 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.

**(a) Current income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**(b) Deferred income tax**

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, and the deferred income tax is not accounted for if it arises from 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 consolidated income statement. Deferred income tax is determined using tax rates

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(and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised 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 foreign operations where the Company 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.

### *(c) Offsetting*

Deferred tax assets and liabilities 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.

### **2.20 Provisions and contingent liabilities**

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the Historical Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

### **2.21 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can

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be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

**(a) *Commission revenue***

The Group earns commission revenue from both buyer and seller through the auction sales in which the Group mainly acts as the role of auctioneer as well as promoting the sales through professional marketing techniques provided. The commission revenue is calculated as a percentage of the hammer price of the artwork sold at the auction in accordance with the contracts between the Group and the buyer and the seller. Such commission revenue is recognised upon the completion of the auction sale as evidenced by the fall of auctioneer's hammer and when the collectability of the related receivables from the buyer is reasonably assured. A cancelled sale is recorded when it is determined that it is probable that the buyer will not complete the transaction in the period in which that determination is made and the commission revenue as well as the associated receivable balances, including the "commission receivable" and the "receivables from buyers in respect of auction and related business", are reversed. The Group also recorded revenue generated from private sales arranged by the Group on behalf of the consignors. The Group may act as an agent by matching the needs of consignors to those of buyers by private sales. In return, the Group collect commissions which are determined through negotiation with both buyers and sellers, usually representing the difference between the purchase price paid by the buyers and the selling price as pre-agreed by the sellers and the Group. Such commission revenue is recognised upon completion of the private sale and when the collectability of the related receivable is reasonably assured.

**(b) *Revenue from other services relating to auctions***

In relation to the auctions organised, the Group also earns other services income from catalogue preparation, or insurance charged to the sellers for artworks in preparation for and placed in the auctions, and they are recognised as revenue when the related services are rendered.

**(c) *Revenue from artwork sales***

Revenue from sale of artworks is recognised upon the transfer of risks and rewards of ownerships, which generally coincides with the time when the goods are delivered to customers and title has passed.

## **2.22 Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method.

## **2.23 Employee benefits**

**(a) *Short-term obligations***

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheet.

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***(b) Pension obligations***

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Employees of the Group are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made.

The contributions are recognised as employee benefit expense when they are due.

***(c) Employee leave entitlement***

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

**2.24 Share-based payments**

The Group receives services from employees or consultants and as consideration, the Controlling Shareholder may transfer certain shares of the Group's subsidiary to the employees or consultants. The fair value of services received in exchange for the equity instruments transferred is recognised as a share-based payment expense. As the fair value of the service received cannot be reliably measured, the Group measures the services received, by reference to the fair value of the equity instruments transferred.

**2.25 Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

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### 3 Financial risk management

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group’s overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial performance.

#### 3.1 Market risk

##### *(a) Foreign exchange risk*

The Company mainly operates in Hong Kong and Japan with transactions mainly settled in HK\$, Japanese Yen (“JPY”) and Renminbi (“RMB”). Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the group entity’s functional currency.

As the assets and liabilities of each company within the Group are mainly denominated in the respective company’s functional currency, the directors are of the opinion that the Group’s volatility of its profits against reasonably possible changes in exchange rates of foreign currencies would not be significant.

##### *(b) Cash flow interest rate risk*

The Group’s interest rate risk arises from bank borrowings. The Group’s bank borrowings which are carried at floating rates expose the Group to cash flow interest rate risk. The Group has not entered into any interest rate swaps to hedge its exposure to interest rate risk.

As at 31 March 2016, 2017 and 2018, if the interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, the profit before tax for the year would have been approximately HK\$260,000, HK\$245,000, and HK\$140,000 lower/higher respectively, mainly as a result of higher/lower interest expense on floating-rate borrowings.

#### 3.2 Credit risk

The carrying amounts of cash and cash equivalents, bank deposits, trade and other receivables and amount due from a related company included in the Historical Financial Information represent the Group’s maximum exposure to credit risk in relation to its financial assets. The objective of the Group’s measures to manage credit risk is to control potential exposure to recoverability problem.

Cash and cash equivalents and bank deposits were deposited in the major financial institutions in Hong Kong, Japan, Taiwan and the PRC, which the directors believe are of high credit quality.

The Group established policies to ensure that revenue from art auction and related business and artwork sales are made to customers with an appropriate credit history and the Group assesses the credit worthiness and financial strength of its customers as well as considering prior transaction history with the customers and volume of sales. Refer to Note 20 for ageing analysis of trade receivables. Management makes periodic collective assessment as well as individual assessment on the recoverability of trade and



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other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. If the other receivables from buyers in respect of auction and related business has not been received, the Group is not obligated to pay the corresponding other payables to sellers in respect of auction and related business. If the buyer defaults on payment, the sale may be cancelled, and the auction lots will be returned to the seller. Both of the other receivables and other payables in respect of auction and related business in relation to such cancelled sales shall be derecognised simultaneously. As such, management believes the credit risk relating to other receivables in respect of auction and related business is not significant.

**3.3 Liquidity risk**

The Group monitors rolling forecasts of the Group’s liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Group expects to fund the future cash flow needs through internally generated cash flows from operations, and borrowings from financial institutions. Regarding other payables to sellers in respect of auction and related business, the Group is not obligated to pay the seller until the other receivables from buyers in respect of auction and related business are collected. If the buyer defaults on payment, the sale may be cancelled, and the auction lots will be returned to the seller, and both of the other receivables and payables in respect of auction and related business in relation to such cancelled sales shall be derecognised simultaneously.

The table below analyses the Group’s financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at each of the consolidated balance sheet dates to the respective contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<b>On demand</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>As at 31 March 2016</b>						
Trade and other payables	–	179,125	–	–	–	179,125
Amount due to the Controlling Shareholder	2,014	–	–	–	–	2,014
Amount due to a former director	1,000	–	–	–	–	1,000
Finance lease liabilities	–	329	295	410	–	1,034
Borrowings	–	23,706	3,540	3,010	863	31,119
	<u>3,014</u>	<u>203,160</u>	<u>3,835</u>	<u>3,420</u>	<u>863</u>	<u>214,292</u>



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	<b>On demand</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>As at 31 March 2017</b>						
Trade and other payables	–	207,002	–	–	–	207,002
Amounts due to the Controlling Shareholder	2,016	–	–	–	–	2,016
Amount due to a former director	1,000	–	–	–	–	1,000
Finance lease liabilities	–	548	474	776	–	1,798
Bank borrowings	–	21,749	2,591	3,552	369	28,261
	<u>3,016</u>	<u>229,299</u>	<u>3,065</u>	<u>4,328</u>	<u>369</u>	<u>240,077</u>
<b>As at 31 March 2018</b>						
Trade and other payables	–	360,037	–	–	–	360,037
Amounts due to the Controlling Shareholder	1,640	10,046	–	–	–	11,686
Amount due to a former director	1,000	–	–	–	–	1,000
Finance lease liabilities	–	492	440	371	–	1,303
Bank borrowings	–	44,090	1,496	2,656	–	48,242
	<u>2,640</u>	<u>414,665</u>	<u>1,936</u>	<u>3,027</u>	<u>–</u>	<u>422,268</u>

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### 3.4 Capital risk management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders’ value in long term.

The Group’s monitors capital by regularly reviewing the capital structure. As a part of this review, the directors of the Company consider the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on basis of the gearing ratio. This ratio is calculated as total debts divided by total capital. Total debts are calculated as total borrowings and finance lease liabilities. Total capital is calculated as “equity” as shown in the Historical Financial Information plus debts.

The gearing ratios at 31 March 2016, 2017 and 2018 were as follows:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Borrowings ( <i>Note 25</i> )	30,911	28,012	48,065
Finance lease liabilities ( <i>Note 25</i> )	943	1,698	1,260
Total debt	<u>31,854</u>	<u>29,710</u>	<u>49,325</u>
Total capital	<u>106,929</u>	<u>137,445</u>	<u>159,734</u>
Gearing ratio	<u>29.8%</u>	<u>21.6%</u>	<u>30.9%</u>

### 3.5 Fair value estimation

The carrying amounts of the Group’s current financial assets, including cash and cash equivalents, short-term bank deposits, trade and other receivables, deposits and amount due from a related company and the Group’s current financial liabilities, including trade and other payables, borrowings, finance lease liabilities, amount due to the Controlling Shareholder and amount due to a former director, approximate their fair values due to their short maturities.

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**4 Critical accounting estimates and judgments**

Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

**4.1 Estimated useful lives and residual values of property, plant and equipment**

The Group's management determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will revise the depreciation charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in future periods.

**4.2 Net realisable value of inventories**

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. Write-downs of inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the period in which such estimate has been changed. Management reassesses these estimates at each balance sheet date.

**4.3 Current and deferred income taxes**

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

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**4.4 Impairment of receivables**

The Group’s management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and debtors and the current market condition, and requires the use of judgments and estimates. Management reassesses the provisions at each balance sheet date.

**5 Segment information**

The chief operating decision-maker has been identified as the executive directors of the Group (“CODM”) that make strategic decisions. The CODM assesses the performance of the operating segments based on a measure of gross profit for the purpose of allocating resources.

The management has identified two operating segments based on the types of revenues, namely (i) operation of art auction and related business and (ii) artwork sales.

The segment information provided to the CODM for the years ended 31 March 2016, 2017 and 2018 are as follows:

	<b>Year ended 31 March 2016</b>		
	<b>Operation of art auction and related business</b>	<b>Artwork sales</b>	<b>Total</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Segment revenue from external customers	133,251	5,362	138,613
Costs of services/sales	<u>(37,085)</u>	<u>(4,232)</u>	<u>(41,317)</u>
<b>Segment results</b>	<b>96,166</b>	<b>1,130</b>	<b>97,296</b>
Other losses, net			(358)
Other income			4,119
Selling and distribution expenses			(32,984)
Administrative expenses			<u>(37,654)</u>
<b>Operating profit</b>			<b>30,419</b>
Finance costs, net			<u>(196)</u>
<b>Profit before income tax</b>			<b>30,223</b>
Income tax expense			<u>(9,644)</u>
<b>Profit for the year</b>			<b><u>20,579</u></b>

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	<b>Operation of art auction and related business</b>	<b>Artwork sales</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue from external customers	137,588	10,460	148,048
Costs of services/sales	<u>(31,444)</u>	<u>(9,436)</u>	<u>(40,880)</u>
<b>Segment results</b>	<b>106,144</b>	<b>1,024</b>	<b>107,168</b>
Other gains, net			259
Other income			2,691
Selling and distribution expenses			(31,574)
Administrative expenses			<u>(37,283)</u>
<b>Operating profit</b>			<b>41,261</b>
Finance costs, net			<u>(257)</u>
<b>Profit before income tax</b>			<b>41,004</b>
Income tax expense			<u>(8,641)</u>
<b>Profit for the year</b>			<b><u>32,363</u></b>

**Year ended 31 March 2018**

	<b>Operation of art auction and related business</b>	<b>Artwork sales</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue from external customers	164,596	8,670	173,266
Costs of services/sales	<u>(32,797)</u>	<u>(8,150)</u>	<u>(40,947)</u>
<b>Segment results</b>	<b>131,799</b>	<b>520</b>	<b>132,319</b>
Other losses, net			(433)
Other income			2,568
Selling and distribution expenses			(26,765)
Administrative expenses			<u>(49,468)</u>
<b>Operating profit</b>			<b>58,221</b>
Finance costs, net			<u>(239)</u>
<b>Profit before income tax</b>			<b>57,982</b>
Income tax expense			<u>(14,053)</u>
<b>Profit for the year</b>			<b><u>43,929</u></b>

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Revenue from external customers, by geographical area, is as follows:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	38,575	63,117	89,757
Japan	100,038	84,931	83,509
	<u>138,613</u>	<u>148,048</u>	<u>173,266</u>

Information on segment assets and segment liabilities of the Group are not reviewed by CODM for the purpose of resource allocation and performance assessment during the Track Record Period nor otherwise regularly provided to the CODM. As a result, no analysis of segment assets and segment liabilities is presented.

Non-current assets, other than deferred income tax assets, by geographical area are as follows:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	788	614	5,115
Japan	21,771	22,327	25,349
	<u>22,559</u>	<u>22,941</u>	<u>30,464</u>

**6 Revenue**

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from art auction and related business	133,251	137,588	164,596
Artwork sales	5,362	10,460	8,670
	<u>138,613</u>	<u>148,048</u>	<u>173,266</u>

All customers individually accounted for less than 10% of the Group’s revenue during the Track Record Period.

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**7 Other (losses)/gains, net**

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange (loss)/gain	(246)	543	(248)
Loss on disposal of property, plant and equipment, net	(22)	–	(109)
Changes in cash surrender values of key management life insurance contracts	<u>(90)</u>	<u>(284)</u>	<u>(76)</u>
	<u>(358)</u>	<u>259</u>	<u>(433)</u>

**8 Other income**

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Compensation received ( <i>Note a</i> )	2,073	–	–
Miscellaneous income	1,718	2,069	1,374
Others	<u>328</u>	<u>622</u>	<u>1,194</u>
	<u>4,119</u>	<u>2,691</u>	<u>2,568</u>

*Note:*

- (a) The amount of compensation received for the year ended 31 March 2016 represented commercial settlement from a buyer who refused to pay commissions in relation to the items auctioned in prior year auction.

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**9 Expenses by nature**

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	4,232	9,436	8,150
Rental and setup costs for auction and preview exhibition venues	25,347	21,809	23,489
Catalogue expenses	9,596	7,644	8,660
Operating lease rentals in respect of rented premises	4,453	4,585	6,143
Agency commissions	9,407	7,104	2,230
Advertising and promotion expenses	5,739	6,453	6,121
Transportation	3,884	2,459	3,082
Travelling	4,443	4,509	4,486
Entertainment	2,429	3,754	1,759
Business hospitality	3,166	1,636	1,981
Bank charge	910	2,746	1,344
Consulting fee	1,937	733	1,580
Employee benefit expenses ( <i>Note 13</i> )	22,882	23,874	24,111
Depreciation of property, plant and equipment ( <i>Note 16</i> )	1,142	1,686	1,896
Amortisation of intangible assets	50	48	49
Provision for doubtful debts ( <i>Note 20</i> )	243	162	527
Share-based compensation expenses ( <i>Note 14</i> )	1,528	–	–
Auditor’s remuneration — audit service	32	54	180
[REDACTED] expenses ( <i>Note</i> )	–	–	[REDACTED]
Others	10,535	11,045	10,493
Total costs of sales of goods, costs of services, selling and distribution expenses and administrative expenses	<u>111,955</u>	<u>109,737</u>	<u>117,180</u>

*Note:*

Included in this amount was HK\$2,268,000 which represented auditor’s remuneration for non-audit services.



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**10 Finance income/(costs), net**

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Finance income:			
– Interest income on bank deposits	<u>18</u>	<u>6</u>	<u>10</u>
Finance costs:			
– Interest expense on finance lease liabilities	(40)	(49)	(61)
– Interest expense on bank borrowings	(159)	(214)	(188)
– Interest expense on other borrowings	<u>(15)</u>	<u>–</u>	<u>–</u>
	<u>(214)</u>	<u>(263)</u>	<u>(249)</u>
Finance income/(costs) — net	<u>(196)</u>	<u>(257)</u>	<u>(239)</u>

**11 Income tax expense**

The amounts of income tax expense charged to the consolidated income statements represent:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current income tax			
– Hong Kong	1,276	5,403	9,565
– Japan	<u>11,171</u>	<u>2,377</u>	<u>2,973</u>
Total current income tax	12,447	7,780	12,538
Deferred income tax ( <i>Note 18</i> )	<u>(2,803)</u>	<u>861</u>	<u>1,515</u>
Income tax expense	<u>9,644</u>	<u>8,641</u>	<u>14,053</u>

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**(a) Hong Kong profits tax**

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits for the years ended 31 March 2016, 2017 and 2018.

**(b) Japan corporate income tax**

Japan corporate income tax has been calculated on the estimated assessable profit for the Track Record Period at the rates of taxation prevailing in Japan in which the Group operates. The Group is subject to national corporate income tax, inhabitant tax, and enterprise tax in Japan, which in aggregate, resulted in effective statutory income tax rates of approximately 35.4%–37.1%, 34.8%–35.4% and 34.8% for the years ended 31 March 2016, 2017 and 2018, respectively.

The tax on the Group’s profit before income tax differs from the theoretical amount that could arise using the weighted average tax rates applicable to profits of the consolidated entities during the respective years is as follows:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Profit before income tax	<u>30,223</u>	<u>41,004</u>	<u>57,982</u>
Tax calculated at a taxation rate of 16.5%	4,987	6,766	9,567
Difference arising from tax rate in respect of other jurisdiction	4,467	1,506	2,133
Tax effect of:			
– Expenses not deductible for tax purpose	651	617	2,204
– Income not subject to income tax	(1)	–	(1)
– Tax allowance and special deduction	(456)	(389)	–
– Withholding tax on unremitted earnings (Note 18)	555	185	265
– Others	<u>(559)</u>	<u>(44)</u>	<u>(115)</u>
Income tax expense	<u><u>9,644</u></u>	<u><u>8,641</u></u>	<u><u>14,053</u></u>

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**12 Earnings per share**

*(a) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the Company’s owners by the weighted average number of ordinary shares in issue during the years ended 31 March 2016, 2017 and 2018, but has not been adjusted for the proposed [REDACTED] of [REDACTED] shares pursuant to the shareholder resolution dated [●] as the proposed [REDACTED] has not become effective as at date of this report.

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Net profit attributable to the owners of the Company (HK\$’000)	<u>18,497</u>	<u>30,780</u>	<u>44,063</u>
Weighted average number of ordinary shares in issue	<u>100</u>	<u>100</u>	<u>100</u>
Basic earnings per share (HK\$’000)	<u><u>185</u></u>	<u><u>308</u></u>	<u><u>441</u></u>

*(b) Diluted earnings per share*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has no dilutive potential ordinary shares during the Track Record Period and accordingly the diluted earnings per share equals basic earnings per share.

**13 Employee benefit expenses (including directors and senior management’s emoluments)**

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Salaries, wages and bonuses	20,800	21,519	22,019
Pension, medical insurance and other social insurances	994	1,019	857
Staff welfare and other benefits ( <i>Note a</i> )	<u>1,088</u>	<u>1,335</u>	<u>1,235</u>
	<u><u>22,882</u></u>	<u><u>23,873</u></u>	<u><u>24,111</u></u>

*Note:*

- (a) The other benefits mainly comprise premium paid for key management insurance contracts which the director will be entitled to receive the benefits upon maturity of the insurance contracts, which is after 12 months from 31 March 2018 (Note 26).

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**(a) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group include one, one and one director for the years ended 31 March 2016, 2017 and 2018 respectively, and his emoluments are reflected in the analysis shown in Note 33(a). The emoluments payable to the remaining four, four and four individuals during the years ended 31 March 2016, 2017 and 2018 are as follows:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, wages and bonuses	4,601	4,865	4,710
Pension, medical insurance and other social insurances	289	377	376
	<u>4,890</u>	<u>5,242</u>	<u>5,086</u>

The emoluments of these individuals fell within the following bands:

	<b>Number of individuals</b>		
	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Emoluments bands:			
Below HK\$1,000,000	1	1	1
HK\$1,000,001 to HK\$1,500,000	2	2	2
HK\$1,500,001 to HK\$2,000,000	1	–	1
HK\$2,000,001 to HK\$2,500,000	–	1	–
	<u>4</u>	<u>4</u>	<u>4</u>

During the years ended March 31, 2016, 2017 and 2018, neither the director nor other members of the five highest paid individuals received any emoluments from the Group as an inducement to join, upon joining the Group, to leave the Group or as compensation for loss of office.

**14 Share based compensation expenses**

On 1 June 2015, Mr. Ando granted 30 shares of TCA Japan to an external consultant as a reward for his past service to one of the Company's subsidiaries. These awarded shares were vested as of the date of grant. The share-based payment expense charged to administrative expenses for the year ended 31 March 2016 amounted to approximately HK\$1,528,000.

The fair value of the award shares granted in 2015 was determined using discounted cash flow method. The significant inputs into the model were gross profit margin of 72%, discount rate of 13.7% and terminal growth rate of 1%.

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**15 Dividend**

No dividend has been paid or declared by the Company or companies now comprising the Group during the Track Record Period.

**16 Property, plant and equipment**

**Group**

	Freehold land	Buildings	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>As at 1 April 2015</b>							
Cost	69	839	3,823	1,257	530	–	6,518
Accumulated depreciation	–	(34)	(1,987)	(184)	(97)	–	(2,302)
Net book amount	<u>69</u>	<u>805</u>	<u>1,836</u>	<u>1,073</u>	<u>433</u>	<u>–</u>	<u>4,216</u>
<b>Year ended 31 March 2016</b>							
Opening net book amount	69	805	1,836	1,073	433	–	4,216
Additions	396	3,520	41	305	789	–	5,051
Disposals	–	–	–	(22)	–	–	(22)
Depreciation ( <i>Note 9</i> )	–	(28)	(767)	(162)	(185)	–	(1,142)
Exchange difference	31	289	78	76	23	–	497
Closing net book amount	<u>496</u>	<u>4,586</u>	<u>1,188</u>	<u>1,270</u>	<u>1,060</u>	<u>–</u>	<u>8,600</u>
<b>As at 1 April 2016</b>							
Cost	496	4,652	4,130	1,632	1,355	–	12,265
Accumulated depreciation	–	(66)	(2,942)	(362)	(295)	–	(3,665)
Net book amount	<u>496</u>	<u>4,586</u>	<u>1,188</u>	<u>1,270</u>	<u>1,060</u>	<u>–</u>	<u>8,600</u>
<b>Year ended 31 March 2017</b>							
Opening net book amount	496	4,586	1,188	1,270	1,060	–	8,600
Additions	–	72	–	129	1,165	1,240	2,606
Depreciation ( <i>Note 9</i> )	–	(170)	(859)	(206)	(451)	–	(1,686)
Exchange difference	4	37	36	10	(25)	(40)	22
Closing net book amount	<u>500</u>	<u>4,525</u>	<u>365</u>	<u>1,203</u>	<u>1,749</u>	<u>1,200</u>	<u>9,542</u>
<b>As at 1 April 2017</b>							
Cost	500	4,756	4,161	1,768	2,487	1,200	14,872
Accumulated depreciation	–	(231)	(3,796)	(565)	(738)	–	(5,330)
Net book amount	<u>500</u>	<u>4,525</u>	<u>365</u>	<u>1,203</u>	<u>1,749</u>	<u>1,200</u>	<u>9,542</u>

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	Freehold land	Buildings	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Year ended 31 March 2018</b>							
Opening net book amount	500	4,525	365	1,203	1,749	1,200	9,542
Additions	–	171	4,596	215	–	359	5,341
Transfer	–	1,070	508	–	–	(1,578)	–
Disposals	–	(109)	–	–	–	–	(109)
Depreciation ( <i>Note 9</i> )	–	(308)	(848)	(237)	(503)	–	(1,896)
Exchange difference	29	301	58	60	55	19	522
Closing net book amount	<u>529</u>	<u>5,650</u>	<u>4,679</u>	<u>1,241</u>	<u>1,301</u>	<u>–</u>	<u>13,400</u>
<b>As at 31 March 2018</b>							
Cost	529	6,210	9,565	2,081	2,587	–	20,972
Accumulated depreciation	–	(560)	(4,886)	(840)	(1,286)	–	(7,572)
Net book amount	<u>529</u>	<u>5,650</u>	<u>4,679</u>	<u>1,241</u>	<u>1,301</u>	<u>–</u>	<u>13,400</u>

Motor vehicles includes the following amount where the Group is a lessee under a finance lease (*Note 25*):

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost — capitalised finance lease	1,355	2,487	2,587
Accumulated depreciation	(295)	(738)	(1,286)
	<u>1,060</u>	<u>1,749</u>	<u>1,301</u>

*Note:*

All depreciation expenses have been charged to administrative expenses for the years ended 31 March 2016, 2017 and 2018.

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*Company*

	<b>Leasehold improvement</b>	<b>Furniture, fixtures and office equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>As at 1 April 2015</b>				
Cost	–	85	–	85
Accumulated depreciation	–	(11)	–	(11)
Net book amount	<u>–</u>	<u>74</u>	<u>–</u>	<u>74</u>
<b>Year ended 31 March 2016</b>				
Opening net book amount	–	74	–	74
Additions	–	25	789	814
Depreciation	–	(21)	(79)	(100)
Closing net book amount	<u>–</u>	<u>78</u>	<u>710</u>	<u>788</u>
<b>As at 31 March 2016</b>				
Cost	–	110	789	899
Accumulated depreciation	–	(32)	(79)	(111)
Net book amount	<u>–</u>	<u>78</u>	<u>710</u>	<u>788</u>
<b>Year ended 31 March 2017</b>				
Opening net book amount	–	78	710	788
Additions	–	6	–	6
Depreciation	–	(22)	(158)	(180)
Closing net book amount	<u>–</u>	<u>62</u>	<u>552</u>	<u>614</u>
<b>As at 31 March 2017</b>				
Cost	–	116	789	905
Accumulated depreciation	–	(54)	(237)	(291)
Net book amount	<u>–</u>	<u>62</u>	<u>552</u>	<u>614</u>

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	<u>Leasehold improvement</u>	<u>Furniture, fixtures and office equipment</u>	<u>Motor vehicles</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>As at 1 April 2017</b>				
Cost	–	116	789	905
Accumulated depreciation	–	(54)	(237)	(291)
Net book amount	<u>–</u>	<u>62</u>	<u>552</u>	<u>614</u>
<b>Year ended 31 March 2018</b>				
Opening net book amount	–	62	552	614
Additions	3,804	203	–	4,007
Depreciation	(381)	(40)	(158)	(579)
Closing net book amount	<u>3,423</u>	<u>225</u>	<u>394</u>	<u>4,042</u>
<b>As at 31 March 2018</b>				
Cost	3,804	319	789	4,912
Accumulated depreciation	(381)	(94)	(395)	(870)
Net book amount	<u>3,423</u>	<u>225</u>	<u>394</u>	<u>4,042</u>

Motor vehicles includes the following amount where the Company is a lessee under a finance lease (Note 25):

	<u>Year ended 31 March</u>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost-capitalised finance lease	789	789	789
Accumulated depreciation	(79)	(237)	(395)
	<u>710</u>	<u>552</u>	<u>394</u>

*Note:*

All depreciation expenses have been charged to administrative expenses for the years ended 31 March 2016, 2017 and 2018.



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**17 Interests in subsidiaries**

*Company*

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	—	—	45,344

The following is a list of the subsidiaries as at 31 March 2018:

<b>Name</b>	<b>Place of incorporation/ establishment</b> <i>(Note a)</i>	<b>Principal activities</b>	<b>Particulars of issued share capital/ registered capital</b>	<b>Interest held by</b>	
				<b>The Company</b>	
				<i>directly</i>	<i>indirectly</i>
Tokyo Chuo Auction Co., Ltd.	Japan	Provision of auction related services and artwork sales	Paid-in capital of JPY50,000,000	92%	—
Tokyo Chuo Auction Hongkong Company Limited	Hong Kong	For provision of auction related services and artwork sales in the future	Paid-in capital of HK\$1	100%	—
Shanghai Shengjia Culture Development Co., Ltd	The PRC	Promotion and related activities	Paid-in capital of RMB245,580	—	92%

*Notes:*

- (a) These subsidiaries principally operate in their places of incorporation/establishment.

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Movements of the Company’s interests in subsidiaries were as follows:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
At beginning of the year	–	–	–
Acquisition of a subsidiary under common control transaction	–	–	43,175
Acquisition of interests in a subsidiary from non-controlling interests	–	–	2,169
	<u>–</u>	<u>–</u>	<u>45,344</u>

**18 Deferred income tax assets and liabilities**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax recoverable against current income tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

**Group**

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Deferred income tax assets	2,693	2,058	876
Deferred income tax liabilities	(1,992)	(2,187)	(2,591)
	<u>701</u>	<u>(129)</u>	<u>(1,715)</u>

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Movements in net deferred income tax (liabilities)/assets are as follows:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Beginning of the year	(2,142)	701	(129)
Credited/(charged) to income statement (Note 11)	2,803	(861)	(1,515)
Exchange differences	40	31	(71)
End of the year	<u>701</u>	<u>(129)</u>	<u>(1,715)</u>

Movement in deferred income tax assets and liabilities during the Track Record Period, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

*Deferred income tax assets*

	<b>Property, plant and equipment</b>	<b>Inventories</b>	<b>Other payables and accruals</b>	<b>Others</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	At as 1 April 2015	10	345	214	1,075
Credited to income statement	110	130	1,722	728	2,690
Exchange differences	8	32	129	122	291
At as 31 March 2016 and 1 April 2016	128	507	2,065	1,925	4,625
Credited/(charged) to income statement	270	(182)	(319)	(861)	(1,092)
Exchange differences	(7)	10	26	42	71
At as 31 March 2017 and 1 April 2017	391	335	1,772	1,106	3,604
Credited/(charged) to income statement	132	676	(1,566)	82	(676)
Exchange differences	28	48	38	69	183
At as 31 March 2018	<u>551</u>	<u>1,059</u>	<u>244</u>	<u>1,257</u>	<u>3,111</u>

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*Deferred income tax liabilities*

	<b>Key management life insurance contracts</b>	<b>Withholding tax on unremitted earnings</b>	<b>Others</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At as 1 April 2015	1,350	1,310	1,126	3,786
Charged/(credited) to income statement	404	555	(1,072)	(113)
Exchange differences	<u>118</u>	<u>127</u>	<u>6</u>	<u>251</u>
At as 31 March 2016 and 1 April 2016	1,872	1,992	60	3,924
Charged/(credited) to income statement	(509)	185	93	(231)
Exchange differences	<u>33</u>	<u>10</u>	<u>(3)</u>	<u>40</u>
At as 31 March 2017 and 1 April 2017	1,396	2,187	150	3,733
Charged to income statement	268	265	306	839
Exchange differences	<u>92</u>	<u>139</u>	<u>23</u>	<u>254</u>
At as 31 March 2018	<u><u>1,756</u></u>	<u><u>2,591</u></u>	<u><u>479</u></u>	<u><u>4,826</u></u>

Deferred income tax liabilities have been recognised for the withholding tax that would be payable on the unremitted earnings of TCA Japan based on 5% applicable tax rate of the distributable profits of TCA Japan that the directors consider to be subject to distribution.

The Group did not recognise deferred income tax assets in respect of losses of approximately Nil, HK\$261,000 and HK\$1,119,000 as at 31 March 2016, 2017 and 2018 respectively. Unrecognised tax losses amounting to approximately Nil, HK\$261,000 and HK\$619,000 as at 31 March 2016, 2017 and 2018 respectively will be subject to expiry from 2022 to 2023, while the remaining balance can be carried forward indefinitely.

**19 Inventories**

*Group*

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Artwork	<u>21,442</u>	<u>13,758</u>	<u>23,050</u>

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*Company*

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Artwork	<u>3,100</u>	<u>3,100</u>	<u>3,100</u>

The cost of inventories recognised as expenses and included in “costs of sales of goods” amounted to approximately HK\$4,232,000, HK\$9,436,000 and HK\$8,150,000, for the years ended 31 March 2016, 2017 and 2018 respectively.

**20 Trade and other receivables**

*Group*

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Trade receivables	7,485	10,896	45,979
Less: provision for bad and doubtful debts	<u>(42)</u>	<u>(198)</u>	<u>(202)</u>
Trade receivables — net	7,443	10,698	45,777
Other receivables			
– Receivables from buyers in respect of auction and related business ( <i>Note i</i> )	56,012	95,269	338,395
– Consignor advance ( <i>Note ii</i> )	7,589	–	15,151
– Input value-added tax recoverable	427	141	23,257
– Others	<u>70</u>	<u>4</u>	<u>1,081</u>
Trade and other receivables	<u>71,541</u>	<u>106,112</u>	<u>423,661</u>

As at 31 March 2016, 2017 and 2018, the fair value of trade and other receivables of the Group approximated their carrying amounts.

*Note:*

- (i) Other receivables from buyers in respect of auction and related business represent the purchase price of the auction articles receivable on behalf of sellers.
- (ii) Included in other receivables are advances of HK\$7,589,000, nil and HK\$15,151,000 made to certain sellers as at 31 March 2016, 2017 and 2018, respectively, upon consignment of auction articles to the Group. These advances are interest bearing at 1% per annum and repayable within 6 months.

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As at 31 March 2016, 2017 and 2018, the carrying amounts of trade and other receivables are denominated in the following currencies:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$	164	19,151	217,597
JPY	<u>71,377</u>	<u>86,961</u>	<u>206,064</u>
	<u>71,541</u>	<u>106,112</u>	<u>423,661</u>

The Group grants credit period of 7 days for commission receivables and 30 days for receivables from artwork sales. The aging analysis of trade receivables based on invoice date, before provision for impairment, as at 31 March 2016, 2017 and 2018, was as follows:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables — gross			
– Within 3 months	4,886	7,161	21,597
– 3 to 6 months	4	1,190	20,243
– 6 to 12 months	1,833	10	2,667
– Over 1 year	<u>762</u>	<u>2,535</u>	<u>1,472</u>
	<u>7,485</u>	<u>10,896</u>	<u>45,979</u>

As at 31 March 2016, 2017 and 2018, trade receivables of HK\$7,443,000, HK\$10,698,000 and HK\$45,777,000 respectively, were past due but not impaired. Based on the past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there is no significant change in their credit quality and the balances are considered fully recoverable. These trade receivables relate to a number of debtors for whom there is no recent history of default. The ageing analysis of these trade receivables that were past due but not impaired at respective balance sheet dates is as follows:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables — gross			
– Within 3 months	4,886	7,161	21,597
– 3 to 6 months	4	1,190	20,243
– 6 to 12 months	1,833	10	2,667
Over 1 year	<u>720</u>	<u>2,337</u>	<u>1,270</u>
	<u>7,443</u>	<u>10,698</u>	<u>45,777</u>

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The Group does not hold any collateral as security over these debtors as at 31 March 2016, 2017 and 2018.

Movements of the Group’s provision for impairment of trade receivables are as follows:

	<b>As at 31 March</b>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
At beginning of the year	5	42	198
Provision for doubtful debts	243	162	527
Write-off	(209)	–	(512)
Exchange differences	<u>3</u>	<u>(6)</u>	<u>(11)</u>
At end of the year	<u>42</u>	<u>198</u>	<u>202</u>

**Company**

	<b>As at 31 March</b>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Trade receivables	22	1,190	20,243
Less: provision for impairment of trade receivables	<u>–</u>	<u>–</u>	<u>–</u>
Trade receivables - net	22	1,190	20,243
Receivables from buyers in respect of auction and related business	<u>142</u>	<u>18,366</u>	<u>201,876</u>
Trade and other receivables	<u>164</u>	<u>19,556</u>	<u>222,119</u>

As at 31 March 2016, 2017 and 2018, the fair value of trade and other receivables of the Company approximated their carrying amounts.

As at 31 March 2016, 2017 and 2018, the carrying amounts of trade and other receivables of the Company are denominated in Hong Kong dollars.

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The Company grants credit period of 7 days for commission receivables and 30 days for receivables from artwork sales. The ageing analysis of trade receivables based on invoice date, before provision for impairment, as at 31 March 2016, 2017 and 2018, was as follows:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables — gross			
– Within 3 months	–	–	–
– 3 to 6 months	2	1,190	20,243
– 6 to 12 months	<u>20</u>	<u>–</u>	<u>–</u>
	<u>22</u>	<u>1,190</u>	<u>20,243</u>

As at 31 March 2016, 2017 and 2018, trade receivables of HK\$22,000, HK\$1,190,000 and HK\$20,243,000, respectively, were past due but not impaired. Based on the past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there is no significant change in their credit quality and the balances are considered fully recoverable. These trade receivables relate to a number of debtors for whom there is no recent history of default. The ageing analysis of these trade receivables past due but not impaired at respective balance sheet dates is as follows:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables — gross			
– Within 3 months	–	–	–
– 3 to 6 months	2	1,190	20,243
– 6 to 12 months	<u>20</u>	<u>–</u>	<u>–</u>
	<u>22</u>	<u>1,190</u>	<u>20,243</u>

The Company does not hold any collateral as security over these debtors as at 31 March 2016, 2017 and 2018.



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**ACCOUNTANT’S REPORT**

**21 Deposits and prepayments**

*Group*

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Current portion:			
– Deposits and prepayments	3,374	1,088	7,187
	-----	-----	-----
Non-current portion:			
– Rental and other deposits	2,892	2,993	4,236
– Key management life insurance contracts (Note a)	10,222	9,858	12,270
	13,114	12,851	16,506
	-----	-----	-----
Total	<u>16,488</u>	<u>13,939</u>	<u>23,693</u>

As at 31 March 2016, 2017 and 2018, the fair value of deposits of the Group approximated their carrying amounts.

As at 31 March 2016, 2017 and 2018, the carrying amounts of deposits and prepayments are denominated in the following currencies:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
HK\$	2,667	862	13,833
JPY	13,759	13,016	9,476
RMB	–	–	295
Others	62	61	89
	<u>16,488</u>	<u>13,939</u>	<u>23,693</u>

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*Note a:*

**Key management life insurance contracts**

Movements of the Group’s investment in key management life insurance contracts are as follows:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
At beginning of the year	7,503	10,222	9,858
Addition	2,156	1,867	1,836
Receipts upon termination of key management life insurance contracts	–	(2,036)	–
Changes in cash surrender value of key management life insurance contracts	(90)	(284)	(76)
Exchange differences	653	89	652
At end of the year	<u>10,222</u>	<u>9,858</u>	<u>12,270</u>

**Company**

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Current portion:			
– Deposits and prepayments	2,647	346	2,576
Non-current portion:			
– Deposits	–	–	1,073
Total	<u>2,647</u>	<u>346</u>	<u>3,649</u>

As at 31 March 2016, 2017 and 2018, the fair value of deposits of the Company approximated their carrying amounts.

As at 31 March 2016, 2017 and 2018, the carrying amounts of deposits and prepayments of the Company are denominated in Hong Kong dollars.

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**22 Cash and cash equivalents, short-term bank deposits and long-term bank deposits**

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Cash at banks and on hand	191,106	212,473	68,909
Deposits with maturity less than 3 months	<u>1,380</u>	<u>1,390</u>	<u>1,473</u>
Cash and cash equivalents	192,486	213,863	70,382
Short-term bank deposits	<u>—</u>	<u>341</u>	<u>—</u>
	<u>192,486</u>	<u>214,204</u>	<u>70,382</u>
Long-term bank deposits ( <i>Note a</i> )	<u>255</u>	<u>—</u>	<u>—</u>

*Note:*

- (a) As at 31 March 2016, bank deposits of approximately HK\$255,000 is denominated in JPY and with maturity over 1 year.

The carrying amounts of the cash and cash equivalents, short-term bank deposits and long-term bank deposits are denominated in the following currencies:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
– HK\$	50,525	80,248	33,233
– JPY	142,184	133,476	36,749
– RMB	12	462	309
– Others	<u>20</u>	<u>18</u>	<u>91</u>
	<u>192,741</u>	<u>214,204</u>	<u>70,382</u>

As at 31 March 2016, 2017 and 2018, the Group’s bank balances of approximately nil, HK\$213,000 and HK\$2,000, respectively were deposited with a bank in the PRC. The remittance of these funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

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*Company*

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Cash and cash equivalents			
– Cash at banks and on hand	<u>47,318</u>	<u>79,772</u>	<u>33,824</u>

The carrying amounts of the cash at banks and on hand are denominated in the following currencies:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
– HK\$	47,313	77,287	33,198
– JPY	–	2,480	577
– RMB	<u>5</u>	<u>5</u>	<u>49</u>
	<u>47,318</u>	<u>79,772</u>	<u>33,824</u>

**23 Share Capital**

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Issued and fully paid:			
100 ordinary shares	<u>–</u>	<u>–</u>	<u>–</u>

As at 31 March 2016, 2017 and 2018, the amounts of issued and fully paid share capital were HK\$100, HK\$100 and HK\$100, respectively.

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**24 Reserves**

**Group**

	<b>Other reserves</b>				
	<b>Merger reserves</b>	<b>Currency translation differences</b>	<b>Sub-total</b>	<b>Retained earnings</b>	<b>Total</b>
	<i>(Note a)</i>				
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>At 1 April 2015</b>	4,817	(14,221)	(9,404)	54,437	45,033
Profit for the year	–	–	–	18,497	18,497
Share-based payment transactions <i>(Note 14)</i>	–	–	–	457	457
Currency translation differences	–	3,280	3,280	–	3,280
<b>At 31 March 2016 and 1 April 2016</b>	<u>4,817</u>	<u>(10,941)</u>	<u>(6,124)</u>	<u>73,391</u>	<u>67,267</u>
Profit for the year	–	–	–	30,780	30,780
Currency translation differences	–	260	260	–	260
<b>At 31 March 2017 and 1 April 2017</b>	<u>4,817</u>	<u>(10,681)</u>	<u>(5,864)</u>	<u>104,171</u>	<u>98,307</u>
Profit for the year	–	–	–	44,063	44,063
Deemed distribution to shareholders <i>(Note b)</i>	(43,175)	–	(43,175)	–	(43,175)
Transaction with non-controlling interests	–	–	–	816	816
Currency translation differences	–	3,658	3,658	–	3,658
<b>At 31 March 2018</b>	<u>(38,358)</u>	<u>(7,023)</u>	<u>(45,381)</u>	<u>149,050</u>	<u>103,669</u>

*Note:*

- (a) The consolidation difference that arises under merger accounting is included as “merger reserve”, and computed by comparing the considerations paid and the share capital of the subsidiaries that merged into the Group.
- (b) Amount mainly represented the consideration of JPY 604.8 million (equivalent to HK\$43.2 million) paid by the Company in acquiring TCA Japan pursuant to the Reorganisation mentioned in Note 1.2, which was considered as deemed distribution to shareholders.

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*Company*

	<b>Retained earnings</b>
	<u>HK\$'000</u>
<b>At 1 April 2015</b>	9,036
Profit for the year	<u>6,792</u>
<b>At 31 March 2016</b>	15,828
Profit for the year	<u>27,510</u>
<b>At 31 March 2017</b>	43,338
Profit for the year	<u>37,637</u>
<b>At 31 March 2018</b>	<u><u>80,975</u></u>

**25 Borrowings and finance lease liabilities**

*Group*

	<b>As at 31 March</b>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current</b>			
Bank borrowings ( <i>Note (a)</i> )	7,336	6,304	4,093
Finance lease liabilities ( <i>Note (b)</i> )	<u>647</u>	<u>1,191</u>	<u>793</u>
	7,983	7,495	4,886
	-----	-----	-----
<b>Current</b>			
Bank borrowings ( <i>Note (a)</i> )	22,075	21,708	43,972
Finance lease liabilities ( <i>Note (b)</i> )	296	507	467
Loan payable to a third party ( <i>Note (c)</i> )	<u>1,500</u>	<u>—</u>	<u>—</u>
	23,871	22,215	44,439
	-----	-----	-----
Total borrowings	<u><u>31,854</u></u>	<u><u>29,710</u></u>	<u><u>49,325</u></u>

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**(a) Bank borrowings**

As at 31 March 2016, 2017 and 2018, all the bank borrowings are denominated in JPY.

As at 31 March 2016, 2017 and 2018, the Group’s banking facilities are guaranteed by (i) personal guarantee from Mr. Ando, (ii) corporate guarantee from a related party, and (iii) third party corporate guarantee.

The effective interest rates of bank borrowings as at 31 March 2016, 2017 and 2018 were 1.7% to 2.5%, 1.5% to 2.4% and 0.8% to 2.4%, respectively.

As at 31 March 2016, 2017 and 2018, the fair value of bank borrowings approximated their carrying amounts.

The personal guarantee provided by the Group’s director and corporate guarantee by a related company were released in April 2018 and May 2018, respectively.

The Group’s bank borrowings are repayable as follows:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Within 1 year	22,075	21,708	43,972
Between 1 and 2 years	3,504	2,438	1,462
Between 2 and 5 years	2,973	3,498	2,631
Over 5 years	859	368	–
	<u>29,411</u>	<u>28,012</u>	<u>48,065</u>

**(b) Finance lease liabilities**

Gross finance lease liabilities — minimum lease payments

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
No later than 1 year	329	548	492
Later than 1 year and no later than 5 years	705	1,250	811
	1,034	1,798	1,303
Future finance charges on finance leases	(91)	(100)	(43)
<b>Present value of financial lease liabilities</b>	<u>943</u>	<u>1,698</u>	<u>1,260</u>

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The present value of finance lease liabilities are as follows:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
No later than 1 year	296	507	467
Later than 1 year and no later than 5 years	<u>647</u>	<u>1,191</u>	<u>793</u>
	<u>943</u>	<u>1,698</u>	<u>1,260</u>

As at 31 March 2016, 2017 and 2018, the finance leases are secured by the Group’s motor vehicles with carrying values of HK\$1,060,000, HK\$1,749,000, and HK\$1,301,000, respectively. The rights to the leased asset are reverted to the lessors in the event of default of the lease liabilities by the Group.

**(c) Loan payable to a third party**

The loan balance was unsecured, interest bearing at 1% per annum, denominated in HK\$ and repayable within 1 year.

**Company**

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current</b>			
Finance lease liabilities <i>(Note (d))</i>	487	329	184
	-----	-----	---
<b>Current</b>			
Finance lease liabilities <i>(Note (d))</i>	158	158	163
Loan payable to a third party <i>(Note (c))</i>	<u>1,500</u>	<u>—</u>	<u>—</u>
	<u>1,658</u>	<u>158</u>	<u>—</u>
	-----	-----	---
Total borrowings	<u>2,145</u>	<u>487</u>	<u>347</u>



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**(d) Finance lease liabilities**

*Gross finance lease liabilities — minimum lease payments*

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
No later than 1 year	173	173	173
Later than 1 year and no later than 5 years	<u>535</u>	<u>362</u>	<u>188</u>
	708	535	361
Future finance charges on finance leases	<u>(63)</u>	<u>(48)</u>	<u>(14)</u>
<b>Present value of financial lease liabilities</b>	<b><u>645</u></b>	<b><u>487</u></b>	<b><u>347</u></b>

The present value of finance lease liabilities are as follows:

No later than 1 year	158	158	163
Later than 1 year and no later than 5 years	<u>487</u>	<u>329</u>	<u>184</u>
	<u>645</u>	<u>487</u>	<u>347</u>

As at 31 March 2016, 2017 and 2018, the finance lease secured by the Company’s motor vehicles with carrying values of HK\$710,000, HK\$552,000, and HK\$394,000, respectively. The rights to the leased asset are reverted to the lessors in the event of default of the lease liabilities by the Company.

**26 Trade and other payables and accruals**

**Group**

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Trade payables	6,371	4,638	4,637
Payables to sellers in respect of auction and related business	167,723	192,942	348,035
Deposits received, other payables and accruals	<u>12,354</u>	<u>18,613</u>	<u>24,297</u>
	<u>186,448</u>	<u>216,193</u>	<u>376,969</u>
Less: Non-current portion:			
– Other payable	<u>(4,118)</u>	<u>(4,978)</u>	<u>(6,149)</u>
Current portion	<b><u>182,330</u></b>	<b><u>211,215</u></b>	<b><u>370,820</u></b>

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Payables to sellers in respect of auction and related business represent the purchase price of auction articles payable to sellers less seller commissions and other auction related receivable.

Trade receivables from sellers that had been netted off with payables to sellers in respect of auction and related business under enforceable master offsetting arrangements as at 31 March 2016, 2017 and 2018 were approximately HK\$19,296,000, HK\$22,197,000 and HK\$40,039,000, respectively.

As at 31 March 2016, 2017 and 2018, all trade and other payables of the Group were non-interest bearing, and their fair value, except for those non-financial liabilities, approximate to their carrying amounts due to their short maturities.

The non-current other payable represents the Group’s obligation to pay for the employee benefits of a director of the Group, which will be settled after 12 months from the balance sheet date (Note 13).

The Group’s trade and other payables and accruals are denominated in the following currencies:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
HK\$	33,053	52,237	211,455
JPY	152,828	163,293	165,302
Others	567	663	212
	<u>186,448</u>	<u>216,193</u>	<u>376,969</u>

Ageing analysis of the trade payables at the respective balances sheet dates based on invoice date are as follows:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Within 30 days	<u>6,371</u>	<u>4,638</u>	<u>4,637</u>

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*Company*

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Payables to sellers in respect of auction business	32,034	51,320	199,951
Deposits received, other payables and accruals	<u>708</u>	<u>872</u>	<u>11,459</u>
	<u><u>32,742</u></u>	<u><u>52,192</u></u>	<u><u>211,410</u></u>

As at 31 March 2016, 2017 and 2018, all trade and other payable and accruals of the Company were non-interest bearing, and their fair value approximated their carrying amounts due to their short maturities.

As at 31 March 2016, 2017 and 2018, all the carrying amounts of trade and other payables and accruals are denominated in Hong Kong dollars.

**27 Financial instruments by category**

*Group*

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Loans and receivables</b>			
– Trade and other receivables	71,541	106,112	423,661
– Deposits	3,147	2,993	4,236
– Long-term bank deposits	255	–	–
– Amount due from a related company	2,070	13,899	14,716
– Short-term bank deposits	–	341	–
– Cash and cash equivalents	<u>192,486</u>	<u>213,863</u>	<u>70,382</u>
	<u><u>269,499</u></u>	<u><u>337,208</u></u>	<u><u>512,995</u></u>
<b>Financial liabilities at amortised cost</b>			
– Trade and other payables	179,125	207,002	360,037
– Finance lease liabilities	943	1,698	1,260
– Borrowings	30,911	28,012	48,065
– Amount due to the Controlling Shareholder	2,014	2,016	11,686
– Amount due to a former director	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
	<u><u>213,993</u></u>	<u><u>239,728</u></u>	<u><u>422,048</u></u>

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**28 Notes to consolidated statements of cash flows**

- (a) Reconciliation of profit before income tax to net cash generated from/(used in) operations.

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax	30,223	41,004	57,982
Adjustments for:			
– Depreciation of property, plant and equipment ( <i>Note 9</i> )	1,142	1,686	1,896
– Amortisation of intangible assets ( <i>Note 9</i> )	50	48	49
– Changes in cash surrender values of key management life insurance contracts	90	284	76
– Share based payment expenses ( <i>Note 14</i> )	1,528	–	–
– Loss on disposal of property, plant and equipment ( <i>Note (b)</i> )	22	–	109
– Interest income	(18)	(6)	(10)
– Interest expenses	214	263	249
– Provision for bad and doubtful debts	243	162	527
Changes in working capital:			
– Inventories	(533)	7,684	(9,292)
– Trade and other receivables, deposits and prepayment	(14,212)	(44,369)	(324,196)
– Trade and other payables and accruals	28,696	29,745	170,446
Cash generated from/(used in) operations	<u>47,445</u>	<u>36,501</u>	<u>(102,164)</u>

- (b) In the consolidated statement of cash flows, proceeds from disposal of properties, plant and equipment comprise:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net book amount	22	–	109
Loss on disposal of property, plant and equipment	(22)	–	(109)
Proceeds from disposal	<u>–</u>	<u>–</u>	<u>–</u>

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(c) *Debt reconciliation*

This section sets out an analysis of the movements in total debt for each of the periods presented.

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Borrowings — repayable within one year	23,871	22,215	44,439
Borrowings — repayable after one year	<u>7,983</u>	<u>7,495</u>	<u>4,886</u>
Total debt	<u>31,854</u>	<u>29,710</u>	<u>49,325</u>
Gross debt — fixed interest rates	4,092	5,717	34,727
Gross debt — variable interest rates	<u>27,762</u>	<u>23,993</u>	<u>14,598</u>
Total debt	<u>31,854</u>	<u>29,710</u>	<u>49,325</u>

	<b>Liabilities from financing activities</b>				
	<b>Finance lease due within 1 year</b>	<b>Finance lease due after 1 year</b>	<b>Borrowings due within 1 year</b>	<b>Borrowings due after 1 year</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Total debt as at 1 April 2015</b>	119	279	12,185	5,309	17,892
Cash flows	161	338	9,983	1,557	12,039
Foreign exchange adjustments	<u>16</u>	<u>30</u>	<u>1,407</u>	<u>470</u>	<u>1,923</u>
<b>Total debt as at 31 March 2016 and 1 April 2016</b>	296	647	23,575	7,336	31,854
Cash flows	201	524	(2,020)	(1,146)	(2,441)
Foreign exchange adjustments	<u>10</u>	<u>20</u>	<u>153</u>	<u>114</u>	<u>297</u>
<b>Total debt as at 31 March 2017 and 1 April 2017</b>	507	1,191	21,708	6,304	29,710
Cash flows	(57)	(436)	20,148	(2,498)	17,157
Foreign exchange adjustments	<u>17</u>	<u>38</u>	<u>2,116</u>	<u>287</u>	<u>2,458</u>
<b>Total debt as at 31 March 2018</b>	<u>467</u>	<u>793</u>	<u>43,972</u>	<u>4,093</u>	<u>49,325</u>

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**29 Commitments**

*(a) Capital commitments*

There is no capital commitments at each balance sheet dates.

*(b) Operating lease commitments — the Group as lessee*

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
No later than 1 year	5,214	4,659	7,975
Later than 1 year and no later than 2 years	4,340	–	7,104
Later than 2 years and no later than 5 years	–	–	2,324
	<u>9,554</u>	<u>4,659</u>	<u>17,403</u>

One of the leased premises of the Group is guaranteed by a related party, Bai Sheng Co., Ltd., on joint and several basis for the year ended 31 March 2016, 2017 and 2018.

**30 Related party transactions**

**Group**

*(a) Names and relationships with related parties*

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in holding power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor’s returns. Parties are also considered to be related if they are subject to common control or joint control.

The following individuals and companies are related parties of the Group that had balances and/or transactions with the Group during the Track Record Period.

<b>Name of related parties</b>	<b>Relationship with the Group</b>
Mr. Ando Shokei	Controlling Shareholder
Mr. Feng Heqing	Key management of the Company
Bai Sheng Co., Ltd.	Controlled by Mr. Ando Shokei

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*(b) Balances with related parties*

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due from a related company			
– Bai Sheng Co., Ltd.	<u>2,070</u>	<u>13,899</u>	<u>14,716</u>

As at 31 March 2016, 2017 and 2018, balances due from a related company were unsecured, bore interest at 1% per annum, denominated in JPY, and repayable on demand.

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due to the Controlling Shareholder			
– Mr. Ando	<u>2,014</u>	<u>2,016</u>	<u>11,686</u>
Amount due to a former director			
– Mr. Feng	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

As at 31 March 2016 and 2017, amounts due to the Controlling Shareholder and a former director were unsecured, interest-free, denominated in HK\$ and JPY, and repayable on demand.

As at 31 March 2018, amount due to the Controlling Shareholder include loan balance of HK\$10,046,000 which was unsecured, bore interest at 1% per annum, denominated in HK\$, and repayable within 1 year. Remaining balances due to the Controlling Shareholder and a former director were unsecured, interest-free, denominated in HK\$, and repayable on demand.

The maximum outstanding balances due to the Controlling Shareholder during the years ended 31 March 2016, 2017 and 2018 were HK\$2,014,000, HK\$2,016,000 and HK\$11,686,000, respectively.

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**(c) Transactions with related parties**

In addition to those disclosed elsewhere in the Historical Financial Information, the Group had the following transactions with related parties:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Auction commissions from a related party			
– Bai Sheng Co., Ltd.	<u>81</u>	<u>312</u>	<u>614</u>
Agency commissions charged by a related party			
– Bai Sheng Co., Ltd.	<u>6,930</u>	<u>4,512</u>	<u>784</u>
Rental expense to a related party			
– Bai Sheng Co., Ltd.	<u>–</u>	<u>64</u>	<u>64</u>

All the related party transactions were conducted in accordance with terms mutually agreed with related parties and in the ordinary course of business.

**(d) Key management compensation**

Key management includes directors and top management. The compensation paid or payable to key management for employee services is shown below:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Wages and salaries	8,182	8,912	9,490
Bonus	281	482	212
Pensions	302	477	457
Staff welfare and other benefits	<u>772</u>	<u>857</u>	<u>843</u>
	<u>9,537</u>	<u>10,728</u>	<u>11,002</u>



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**Company**

The following individuals and companies are related parties of the Company that had balances and/or transactions with the Company during the Track Record Period.

<u>Name of related parties</u>	<u>Relationships with the Company</u>
Tokyo Chuo Auction Hongkong Company Limited (“TCA HK”)	Subsidiary
Tokyo Chuo Auction Co., Ltd. (“TCA Japan”)	Subsidiary
Mr. Ando Shokei	Controlling Shareholder
Mr. Feng Heqing	Key management of the Company

**(e) Balances with related parties**

	<u>As at 31 March</u>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Amounts due from a subsidiary			
– TCA HK	<u>–</u>	<u>–</u>	<u>3,232</u>
Amount due to a subsidiary			
– TCA Japan	<u>302</u>	<u>411</u>	<u>4,357</u>

As at 31 March 2016, 2017 and 2018, balances due to and due from subsidiaries were unsecured, interest-free denominated in HK\$, and repayable on demand.

	<u>As at 31 March</u>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Amount due to the Controlling Shareholder			
– Mr. Ando	<u>1,753</u>	<u>1,753</u>	<u>11,686</u>
Amount due to a former director			
– Mr. Feng	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

As at 31 March 2016 and 2017, amounts due to the Controlling Shareholder and a former director were unsecured, interest-free, denominated in HK\$, and repayable on demand.

As at 31 March 2018, amount due to the Controlling Shareholder include loan balance of HK\$10,046,000 which was unsecured, bore interest at 1% per annum, denominated in HK\$, and

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repayable within 1 year. Remaining balances due to the Controlling Shareholder and a former director were unsecured, interest-free, denominated in HK\$, and repayable on demand.

The maximum outstanding balances due to the Controlling Shareholder during the years ended 31 March 2016, 2017 and 2018 were HK\$1,753,000, HK\$1,753,000 and HK\$11,686,000 respectively.

*(f) Transactions with related parties*

In addition to those disclosed elsewhere in the Historical Financial Information, the Group had the following transactions with related parties:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Consultancy fee paid to			
– TCA Japan	<u>301</u>	<u>411</u>	<u>724</u>
Auction commission received from			
– TCA Japan	<u>–</u>	<u>357</u>	<u>386</u>

**31 Contingent liabilities**

The Group had no material contingent liabilities outstanding as at 31 March 2016, 2017 and 2018.

**32 Events after the balance sheet date**

Save as disclosed elsewhere in the Historical Financial Information, the following significant event took place subsequent to 31 March 2018:

*Issuance of convertible notes*

Pursuant to a written resolution of the sole director of the Company dated 24 April 2018, the Company entered into agreements with five independent investors in relation to their subscriptions of the Company’s convertible notes totalling approximately HK\$38,800,000. The outstanding principal amount of these convertible notes shall be automatically and mandatorily converted into fully paid shares of the Company upon successful [REDACTED] in recognised stock exchange according to a formula prescribed in the subscription agreements. The convertible notes bear interest at 1% per annum. The convertible notes will mature upon 12 months from the date of the subscription, subject to mutual agreement between the Company to extend for a further 12-month period. If the [REDACTED] does not take place before the maturity date, the Company shall redeem the outstanding amount of the convertible notes with additional interest of 7% per annum. The Company may redeem all of the outstanding principal amount of the convertible notes with terms set out in the subscription agreements on or at any time after 31 December 2018 until the maturity date. The Company is currently finalising the accounting impact of the issuance of convertible notes.

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**33 Benefits and interest of directors**

*(a) Directors and chief executive's emoluments*

The remuneration of each director of the Company paid/payable by the Group for the years ended 31 March 2016, 2017 and 2018 are set out as follows:

<u>For the year ended</u>	<u>Director's fee</u>	<u>Salaries, wages and bonuses</u>	<u>Pension, medical insurance, other social insurances and other benefits</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 March 2016				
<i>Executive director</i>				
– Mr. Ando	–	3,424	853	4,277
– Mr. Feng	–	–	–	–
	<u>–</u>	<u>3,424</u>	<u>853</u>	<u>4,277</u>
31 March 2017				
<i>Executive director</i>				
– Mr. Ando	–	4,528	958	5,486
– Mr. Feng	–	–	–	–
	<u>–</u>	<u>4,528</u>	<u>958</u>	<u>5,486</u>
31 March 2018				
<i>Executive directors</i>				
– Mr. Ando	–	5,506	941	6,447
– Mr. Feng ( <i>Note a</i> )	–	–	–	–
	<u>–</u>	<u>5,506</u>	<u>941</u>	<u>6,447</u>

The remuneration shown above represents remuneration paid and payable by the Group for these directors in their capacity as employees to the Group and/or in their capacity as directors of the Company during the years ended 31 March 2016, 2017 and 2018. No directors waived or agreed to waive any emoluments during the years ended 31 March 2016, 2017 and 2018.

*Note:*

- (a) Mr. Feng has resigned as the Company's director with effect from 9 March 2018.
- (b) Mrs. Ando, Mr. Katsu, Mr. Sun Hongyue and Mr. Yau Chung Hang are appointed as executive directors on 25 May 2018 and therefore no remuneration was paid to them in the capacity as director during the Track Record Period.

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***(b) Directors' retirement benefits***

During the years ended 31 March 2016, 2017 and 2018, no retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries undertaking.

***(c) Directors' termination benefits***

No payment was made to directors as compensation for early termination of the appointment during the years ended 31 March 2016, 2017 and 2018.

***(d) Consideration provided to third parties for making available directors' services***

No payment was made to third parties for making available directors' services during the years ended 31 March 2016, 2017 and 2018.

***(e) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors***

Save as disclosed in Note 30, there are no other loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors during the years ended 31 March 2016, 2017 and 2018.

***(f) Directors' material interests in transactions, arrangements or contracts***

There are no significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended 31 March 2016, 2017 and 2018.

### **III SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 March 2018 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of its subsidiaries in respect of any period subsequent to 31 March 2018.

**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following information does not form part of the Accountant’s Report prepared by [PricewaterhouseCoopers], Certified Public Accountants, the reporting accountant of the Company, as set forth in Appendix I to this document, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section entitled “Financial Information” in this document and the “Accountant’s Report” set forth in Appendix I to this document.

**A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS**

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the [REDACTED] on the net tangible assets of the Group attributable to the owners of the Company as of March 31, 2018 as if the [REDACTED] had taken place on March 31, 2018.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group as at March 31, 2018 or at any future dates following the [REDACTED].

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at March 31, 2018 <i>(Note 1)</i>	Estimated net [REDACTED] from the [REDACTED] <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company as at March 31, 2018	Unaudited pro forma adjusted net tangible assets per Share <i>(Note 3)</i>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$</u>
Based on an [REDACTED] of HK\$[REDACTED] per Share	<u>103,111</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Based on an [REDACTED] of HK\$[REDACTED] per Share	<u>103,111</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

*Notes:*

- (1) The audited consolidated net tangible assets attributable to the owners of the Company as at March 31, 2018 is extracted from the Accountant’s Report set out in Appendix I to this document, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at March 31, 2018 of approximately HK\$103,669,000 adjusted for intangible asset as at March 31, 2018 of HK\$558,000.
- (2) The estimated net [REDACTED] from the [REDACTED] are based on [REDACTED] [REDACTED] and the [REDACTED] of HK\$[REDACTED] per Share and HK\$[REDACTED] per Share, being low and high end of the [REDACTED], after deduction of the [REDACTED] and other related expenses (excluding approximately HK\$[REDACTED] which have been recognised in the consolidated statement of comprehensive income for the year ended March 31, 2018).

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- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] Shares were in issue assuming that the [REDACTED] has been completed on March 31, 2018 but takes no account of any Shares which may be issued upon exercise of the [REDACTED] or any options to be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates granted to the Directors to allot and issue or repurchase Shares as described in the section headed “Share Capital”.
- (4) No adjustment has been made to the unaudited pro forma adjusted net tangible assets per Share to reflect any trading result or other transaction of the Group entered into subsequent to March 31, 2018.

**APPENDIX II**

**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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[REDACTED]

**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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[REDACTED]



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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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[REDACTED]

## APPENDIX III

## SUMMARY OF THE ARTICLES OF ASSOCIATION

*This Appendix contains a summary of the articles of association of our Company (the “Articles”). The principal objective is to provide potential [REDACTED] with an overview of the Articles. As the information set out below is in summary form, it does not contain all of the information that may be important to potential [REDACTED]. As stated in the section headed “Appendix V — Documents delivered to the Registrar of Companies in Hong Kong and available for inspection” in this document, a copy of the Articles is available for inspection.*

*The Articles were adopted on [REDACTED] and became effective on [REDACTED]. The following is a summary of certain provisions of the Articles. The powers conferred or permitted by the Articles are subject to the provisions of the Companies Ordinance, the Companies (WUMP) Ordinance and other ordinances, subsidiary legislation and the Listing Rules.*

### ALTERATION OF CAPITAL

Our Company may from time to time by ordinary resolution alter its share capital in any one or more of the ways set out in section 170 of the Companies Ordinance, including but not limited to:

- (a) increasing its share capital by allotting and issuing new shares in accordance with the Companies Ordinance;
- (b) increasing its share capital without allotting and issuing new shares, if the funds or other assets for the increase are provided by the members of our Company;
- (c) capitalizing its profits, with or without allotting and issuing new shares;
- (d) allotting and issuing bonus shares with or without increasing its share capital;
- (e) converting all or any of its share into a larger or smaller number of existing shares;
- (f) dividing its shares into several classes and attaching thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions, provided always that where our Company issues shares which do not carry voting rights, the words “non-voting” shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favorable voting rights, must include the words “restricted voting” or “limited voting”;
- (g) canceling shares:
  - (i) that, at the date of the passing of the resolution for cancelation, have not been taken or agreed to be taken by any person;
  - (ii) that have been forfeited; or
- (h) making provision for the issue and allotment of shares which do not carry any voting rights.

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## APPENDIX III

## SUMMARY OF THE ARTICLES OF ASSOCIATION

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Our Company may by special resolution reduce its share capital in any manner and with, and subject to, and incident authorized, and consent required by law.

### PURCHASE OF OWN SHARES AND WARRANTS

Our Company may exercise any powers conferred or permitted by the Companies Ordinance or any other ordinance from time to time to purchase or otherwise acquire its own shares (including any redeemable shares), or to give, directly or indirectly, by means of a loan, guarantee, the provision of security or otherwise, financial assistance for the purpose of or in connection with a purchase or other acquisition made or to be made by any person of any shares in our Company and should our Company purchase or otherwise acquire its own shares, neither our Company nor the Directors shall be required to select the shares to be purchased or otherwise acquired rateably or in any other particular manner as between the holders of shares of the same class or as between them and the holders of shares of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares provided always that any such purchase or other acquisition or financial assistance shall only be made or given in accordance with any relevant rules or regulations issued by the Stock Exchange, the SFC or the relevant regulator or authorities from time to time in force.

“Shares” referred to above include shares, warrants and any other securities convertible into shares which are issued from time to time by our Company.

### VARIATION OF RIGHTS

Subject to the provisions of the Companies Ordinance, if at any time the capital of our Company is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied, either while our Company is a going concern or during or in contemplation of a winding-up, either with the consent in writing of the holders of 75% of the total voting rights of holders of shares in that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class, but not otherwise. To every such separate meeting the provisions of the Articles relating to general meetings shall *mutatis mutandis* apply, except that:

- (a) the necessary quorum at such meeting (other than an adjourned meeting) shall be no less than two persons together holding or representing by proxy at least one-third in the total voting rights of the issued shares of the class in question;
- (b) at any adjourned meeting the necessary quorum shall be two persons holding shares of that class or by proxy (whatever the number of shares held by them);
- (c) the holders of the shares of the class shall, on a poll, have one vote in respect of every share of the class held by them respectively; and
- (d) any holder of shares of the class present in person or by proxy may demand a poll.

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**APPENDIX III****SUMMARY OF THE ARTICLES OF ASSOCIATION**

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**TRANSFERS OF SHARES**

The instrument of transfer of any share shall be in writing and in any usual form or in any other form which the Directors approve including the standard form of transfer as prescribed by the Stock Exchange and shall be executed by or on behalf of the transferor and by or on behalf of the transferee. If the transferor or transferee is a clearing house or its nominee, the instrument of transfer shall be executed by hand or by machine imprinted signature(s) or by such other manner of execution as the Directors may approve from time to time. The transferor shall be deemed to remain the holder of the share(s) concerned until the name of the transferee is entered in the register in respect thereof. Nothing in the Articles shall preclude the Directors from recognizing a renunciation of the allotment or provisional allotment of any share by the allottee in favor of some other person. Shares of different classes shall not be comprised in the same instrument of transfer.

The Directors may, in their absolute discretion, refuse to register the transfer of a share which is not fully paid. The Directors may also refuse to register a transfer of a share unless the instrument of transfer:

- (a) is lodged, duly stamped, at the registered office of our Company or at such other place as the Directors may appoint and is accompanied by the certificate for the share to which it relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and a fee as permitted under the rules prescribed by the Stock Exchange;
- (b) is in respect of only one class of share;
- (c) is in favor of not more than four transferees;
- (d) the shares concerned are free of any lien in favor of our Company; and
- (e) such other conditions as the Directors may from time to time impose for the purpose of guarding against losses arising from forgery are satisfied.

If the Directors refuse to register a transfer of a share, they shall within two months after the date on which the transfer was lodged with our Company send to the transferee notice of the refusal in accordance with the Companies Ordinance. If the Directors refuse to register a transfer of a share, the transferee or transferor may request a statement of the reasons for the refusal. If such a request is made, our Company shall, within 28 days after receiving the request: (a) send the person who made the request a statement of reasons; or (b) register the transfer.

No transfer may be made to an infant or to a person of unsound mind or under other legal disability.

**GENERAL MEETINGS**

Our Company shall, in respect of each financial year of our Company, hold a general meeting as its annual general meeting in accordance with the requirements of the Companies Ordinance in addition to any other meetings in that year, and shall specify the meeting as such in the notices calling it. Subject to

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**APPENDIX III****SUMMARY OF THE ARTICLES OF ASSOCIATION**

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such requirements, the Directors shall determine the date, time and place at which each annual general meeting shall be held. All general meetings other than annual general meetings shall be called extraordinary general meetings.

The Directors may convene a general meeting whenever they think fit. General meetings shall also be convened by the Directors on the requisition of members pursuant to the provisions of the Companies Ordinance. The Directors may, whenever they think fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on such requisition, or in default, may be convened by such requisitionists, as provided by the Companies Ordinance. If at any time there are not within Hong Kong sufficient Directors capable of acting to form a quorum, any Director or any two or more members of our Company representing at least 10% of the total voting rights of all members having a right to vote at general meetings, may convene an extraordinary general meeting in the same manner as nearly as possible, as that in which meetings may be convened by the Directors.

**NOTICE OF GENERAL MEETINGS**

Subject to section 578 of the Companies Ordinance, an annual general meeting shall be called by notice in writing of at least 21 clear days (or such longer period as may be required by the Listing Rules), and an extraordinary general meeting shall be called by notice in writing of at least 14 clear days (or such longer period as may be required by the Listing Rules), shall be given in the manner mentioned in the Articles to all members, to the Directors and to the auditors of our Company for the time being. Notice of a general meeting shall be given to such persons as are, under the Articles, entitled to receive such notices from our Company.

The notice shall specify the place, the day and the time of meeting (and if the meeting is to be held in 2 or more places, the principal place of the meeting and the other place or places of the meeting) and, in the case of special business the general nature of such business, and in the case of an annual general meeting shall specify the meeting as such. If a resolution (whether or not a special resolution) is intended to be moved at the meeting, the notice must include notice of the resolution, and include or be accompanied by a statement containing any information or explanation that is reasonably necessary to indicate the purpose of the resolution. For notice of a general meeting, there shall appear on every such notice with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him and that a proxy need not be a member of our Company.

The accidental omission to give notice of a meeting or a resolution intended to be moved at a general meeting to, or the non-receipt of notice of a meeting or a resolution intended to be moved at a general meeting by, any person entitled to receive notice shall not invalidate any resolution(s) passed or the proceedings at that meeting. In cases where instruments of proxy are sent out with notices, the accidental omission to send such instrument of proxy to, or the non-receipt of such instrument of proxy by, any person entitled to receive notice shall not invalidate any resolution(s) passed or the proceedings at that meeting.

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**APPENDIX III****SUMMARY OF THE ARTICLES OF ASSOCIATION**

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Subject to the provisions of the Companies Ordinance, a meeting of our Company shall, notwithstanding that it is called by shorter notice than that specified in the Articles, be deemed to have been duly called if it so agreed:

- (a) in the case of an annual general meeting, by all the members entitled to attend and vote thereat; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% of the total voting rights at the meeting of all the members.

**VOTING AT GENERAL MEETINGS**

Subject to any rights or restrictions attached to any shares, and to the Articles and the Companies Ordinance, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorized representative at any general meeting shall have one vote only, and on a poll every member shall have one vote for every fully paid-up share of which he is the holder.

Subject to the rules prescribed by the Stock Exchange from time to time, any vote of shareholders at a general meeting shall be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. For the purposes of the Articles, procedural and administrative matters are those that (i) are not on the agenda of the general meeting or in any supplementary circular that may be issued by our Company to its members; and (ii) relate to the chairman's duties to maintain the orderly conduct of the meeting and/or allow the business of the meeting to be properly and effectively dealt with, whilst allowing all members a reasonable opportunity to express their views. A poll shall be taken as the chairman directs, and he may appoint scrutineers (who need not be members) and fix a time and place for declaring the result of the poll. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

On any resolution where a vote is not required under the Companies Ordinance, the Listing Rules or the Articles to be held on a poll, a poll may be demanded before or on the declaration of the result of the show of hands:

- (a) by the chairman of the meeting;
- (b) by not less than five members having the right to vote at the meeting;
- (c) by a member or members present in person or by proxy, or a duly authorized representative of a corporation which is a member, representing not less than 5% of the total voting rights of all the members having the right to vote at the meeting; or

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**APPENDIX III****SUMMARY OF THE ARTICLES OF ASSOCIATION**

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- (d) by a member or members holding shares conferring a right to vote at the meeting on which an aggregate sum has been paid up equal to not less than 5% of the total sum paid up on all the shares conferring that right,

and a demand for a poll by a person as proxy for a member shall be as valid as if the demand were made by the member himself.

Without prejudice to the generality of the Articles if a clearing house (or its nominee) is a member of our Company, it (or, as the case may be, its nominee) may authorize such person or persons as it thinks fit to act as its proxy or proxies or its representative or representatives at any meeting of our Company or at any meeting of any class of member of our Company provided that, if more than one person is so authorized, the instrument of proxy or authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person so authorized under the provisions of the Articles will be deemed to have been duly authorized without the need of producing any documents of title, notarised authorization and/or further evidence to substantiate that it is so authorized and shall be entitled to exercise the same powers on behalf of the clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise as if such person were an individual member of our Company, and where a show of hands is allowed, each such person shall be entitled to a separate vote notwithstanding any contrary provision as provided in the Articles.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**DIRECTORS NEED NOT BE MEMBERS**

A Director shall not require a share qualification. A Director who is not a member of our Company shall nevertheless be entitled to attend and speak at all general meeting of our Company.

**BORROWING POWERS OF DIRECTORS**

The Directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and, in particular by the issue of debentures, debenture stock, bonds or other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

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**APPENDIX III****SUMMARY OF THE ARTICLES OF ASSOCIATION**

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**DIRECTORS' APPOINTMENT, REMOVAL AND RETIREMENT**

Our Company may by ordinary resolution elect any person to be a Director. No person (other than a Director retiring at the meeting or in accordance with the Articles) shall be appointed or re-appointed a Director at any general meeting unless:

- (a) he is recommended by the Directors; or
- (b) any of the following occurs:
  - (A) a notice executed by a member qualified to attend and vote on the appointment or reappointment has been given to the Company of the intention to propose that person for appointment or reappointment, stating the particulars which would, if he was appointed or reappointed, be required to be included in the Company's register of directors, together with notice executed by that person of his willingness to be appointed or reappointed;
  - (B) the minimum length of the period during which the notices referred to in (A) are given is at least seven days; or
  - (C) the period for lodgement of the notices referred to in (A) will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting.

Subject to any express terms to the contrary in the relevant resolution for appointing any Director under the Articles, any Director so elected by our Company shall be elected for a term of not more than approximately three years expiring at the conclusion of the annual general meeting of our Company held in the third year following the year of his appointment.

Without prejudice to the power of our Company in general meeting in accordance with any of the provisions of the Articles to appoint any person to be a Director, the Board may, at any time, and from time to time, appoint any person to be a Director, either to fill a casual vacancy or by way of addition to their number. Any Director so appointed by the Board shall hold office only until the next following annual general meeting of our Company, and shall then be eligible for re-appointment.

Subject to the Articles, at each annual general meeting, one-third of the Directors (excluding those Director(s) who are subject to the rotation requirement under the Articles) or, if their number is not three or a multiple of three, the number which is nearest to and is at least one-third, shall retire from office by rotation. A retiring Director shall be eligible for re-election.

Any Director who holds the position as an executive Director shall not be subject to the foregoing retirement-rotation requirement, but for the avoidance of doubt, the Articles shall not prejudice the power of shareholders in general meeting to remove any such Director.



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**APPENDIX III****SUMMARY OF THE ARTICLES OF ASSOCIATION**

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Our Company may, at any general meeting convened and held in accordance with the Companies Ordinance, by ordinary resolution, remove a Director (including an executive Director) at any time before the expiration of his period of office (but such removal shall be without prejudice to any claim to damages for breach of any contract of service between the Director and our Company) provided that the notice of such meeting convened for the purpose of removing a Director shall contain a statement of the intention so to do and be served on such Director 28 days before the meeting and on the members, at least 14 days before the meeting. At such meeting such Director shall be entitled to be heard on the motion of his removal and, subject to the Articles, our Company may, by ordinary resolution, appoint another person instead of him. A person so appointed shall be subject to retirement at the same time as if he had become a Director on the day on which the Director in whose place he is appointed was last appointed or reappointed a Director.

**REMUNERATION AND EXPENSES OF DIRECTORS**

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Directors may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing shall not apply to a Director who holds any salaried employment or office in our Company except in the case of sums paid in respect of Directors' fees.

The Directors may also be paid all reasonable traveling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the Directors or of committees of the Directors or general meetings or separate meetings of the holders of any class of shares or otherwise in connection with the discharge of their duties as Directors.

Any Director who performs services which the Directors consider go beyond the ordinary duties of a Director may be paid such special remuneration (whether by way of bonus, commission, participation in profits or otherwise) as the Directors, or a committee of the Directors, may determine. In particular, the remuneration of a managing Director, joint managing Director, deputy managing Director or other executive Director or a Director appointed to any other office in the management of our Company shall from time to time be fixed by the Directors, or a committee of the Directors, and may be by way of lump sum or by way of salary, bonus, commission, participation in profits or otherwise and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors, or a committee of the Directors may from time to time decide. Such remuneration shall be in addition to his remuneration as a Director.

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## APPENDIX III

## SUMMARY OF THE ARTICLES OF ASSOCIATION

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### DIRECTORS' INTERESTS

A Director (including his connected entities) who is in any way, whether directly or indirectly, interested in a transaction, arrangement or contract or proposed transaction, arrangement or contract with our Company shall declare the nature and extent of his interest or his connected entities' interest at a meeting of the Directors at which the question of entering into the transaction, arrangement or contract is first taken into consideration, if he knows his interest then exists, or in any other case as soon as reasonably practicable, and in any event at the first meeting of Directors after he knows that he is or has become so interested.

Save as otherwise provided by the Articles, a Director and his alternate shall not vote (nor shall be counted in the quorum) at a meeting of the Directors on any resolution approving any transaction, contract or arrangement or concerning a matter in which he or any of his close associate(s) has, directly or indirectly, a material interest (other than an interest in shares, debentures or other securities of, or otherwise in or through, our Company), unless his interest arises only because the case falls within one or more of the following sub-paragraphs:

- (a) the resolution relates to the giving to him or his close associate(s) of a guarantee, security, or indemnity in respect of money lent to, or an obligation incurred by him or any of them at the request of or for the benefit of, our Company or any of its subsidiaries;
- (b) the resolution relates to the giving to a third party of a guarantee, security, or indemnity in respect of an obligation of our Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
- (c) his interest arises by virtue of his or his close associate(s) being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of any shares in or debentures or other securities of or by our Company or any other corporation which our Company may promote or be interested in subscription, purchase or exchange;
- (d) the resolution relates to an arrangement for the benefit of the employees of our Company or any of its subsidiaries, including but without being limited to the adoption, modification or operation of any pension fund, or retirement, death or disability benefit scheme, which relates to both Directors, his close associates and employees of our Company or any of its subsidiaries and does not accord to any Director or his close associate(s) as such any privilege or advantage not generally accorded to the employees to whom the arrangement relates;
- (e) any transaction, contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in those shares, debentures or other securities of our Company;

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**APPENDIX III**

**SUMMARY OF THE ARTICLES OF ASSOCIATION**

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- (f) the resolution relates to an arrangement concerning the adoption, modification or operation of any employee's share scheme, share incentive scheme or share option scheme involving the issue or grant of options over shares or other securities by our Company to, or for the benefit of, the employees of our Company or its subsidiaries under which the Director or his close associate(s) may benefit;
- (g) any contract, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his close associate(s), officer or employee pursuant to the Articles; or
- (h) any proposal concerning any other company in which the Director or his close associate(s) is interested only, whether directly or indirectly, as an officer or executive or shareholder or in which he or any of his close associate(s) is beneficially interested in shares of that company, provided that he and any of his close associate(s) are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his close associates is derived) or of the voting rights.

A Director may:

- (a) hold any other office or place of profit under our Company (other than the office of auditor) in conjunction with his office of Director, for such period and on such terms (as to remuneration or otherwise) as the Directors may determine and such extra remuneration shall be in addition to any remuneration provided for by or pursuant to any other Article;
- (b) act by himself or his firm in a professional capacity for our Company (otherwise than as auditor), and he or his firm shall be entitled to remuneration for professional services as if he were not a Director;
- (c) continue to be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or in which our Company may be interested as a shareholder or otherwise, and subject to the Companies Ordinance, no such Director shall be accountable to our Company for any remuneration or other benefit received by him as a director or officer of, or from his interest in, such other company. The Directors may exercise the voting powers conferred by the shares in any other company held or owned by our Company, or exercisable by them as directors of such other company in such manner in all respects as they think fit (including the exercise thereof in favor of any resolution appointing themselves or any of them directors, managing directors, joint managing directors, deputy managing directors, executive directors, managers or other officers of such company) and any Director may vote in favor of the exercise of such voting rights in the manner aforesaid notwithstanding that he may be, or is about to be appointed a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in manner aforesaid.

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**APPENDIX III****SUMMARY OF THE ARTICLES OF ASSOCIATION**

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Subject to the Companies Ordinance and the Articles, no Director or intended Director shall be disqualified by his office from contracting with our Company either with regard to his tenure of any such other office or place of profit or as vendor, purchaser or otherwise, nor shall any such transaction, arrangement or contract, or any transaction, arrangement or contract entered into by or on behalf of our Company in which any Director (including his connected entities) is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company for any profit realized by any such transaction, arrangement or contract by reason of such Director holding that office or of the fiduciary relation thereby established, provided that such Director shall disclose the nature and extent of his (including his connected entities) interest in any transaction, arrangement or contract in which he is interested as required by and subject to the provisions of the Companies Ordinance.

A Director shall not be counted in the quorum present at a meeting in relation to a resolution on which he is not entitled to vote.

**DIVIDENDS**

Our Company may by ordinary resolution declare dividends but no dividend shall exceed the amount recommended by the Directors. No dividend shall be payable except out of the profits or other distributable reserves of our Company available for distribution. No dividend or other moneys payable on or in respect of a share in the capital of our Company shall bear interest against our Company.

Our Company may retain any dividends or other moneys payable on or in respect of a share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to our Company on account of calls, installments or otherwise in relation to the shares of our Company.

Except as otherwise provided by the Articles or the rights attached to shares or the terms of issue thereof, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. If any share is issued on terms that it ranks for dividend as from a particular date, it shall rank for dividend accordingly. In any other case (and except as aforesaid), dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For the purpose of this paragraph, an amount paid up on a share in advance of a call shall be treated, in relation to any dividend declared after the payment but before the call, as not paid up on the share.

The Directors may pay interim dividends if it appears to them that they are justified by the profits of our Company available for distribution. If the share capital is divided into different classes, the Directors may pay interim dividends on shares which confer deferred or non-preferred rights with regard to dividend as well as on shares which confer preferential rights with regard to dividend, and provided that the Directors act bona fide they shall not incur any liability to the holders of shares conferring preferred rights for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferred rights. The Directors may also resolve to pay at half-yearly or other

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**APPENDIX III****SUMMARY OF THE ARTICLES OF ASSOCIATION**

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suitable intervals to be settled by them any dividend which may be payable at a fixed rate if they are of the opinion that the reserves of our Company justify the payment.

Whenever the Directors or our Company have resolved that a dividend be paid or declared on the share capital of our Company, the Directors may further resolve either:

- (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted shall be of the same class or classes as the class or classes already held by the members entitled thereto, provided that these members will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment or;
- (b) that members entitled to such dividend shall be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit.

The basis of any such allotment shall be determined by the Directors. The Directors, after determining the basis of allotment, shall give not less than two weeks' notice in writing to the members of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective.

The shares allotted pursuant to the provisions above shall rank *pari passu* in all respects with the shares then in issue save only as regards participation:

- (a) in the relevant dividend (or the right to receive or to elect to receive an allotment of shares in lieu thereof as aforesaid); or
- (b) in any other distributions, bonuses or rights paid, made, declared or announced prior to or contemporaneously with the payment or declaration of the relevant dividend.

Whenever the Directors or our Company in general meeting have resolved that a dividend be paid or declared, the Directors may resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind and in particular of paid up shares, debentures or warrants to subscribe securities of our Company or any other corporation to which our Company is entitled, or in any one or more of such ways, with or without offering any rights to members to elect to receive such dividend in cash.

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## APPENDIX III

## SUMMARY OF THE ARTICLES OF ASSOCIATION

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Any dividend unclaimed for one year after having become payable may be invested or otherwise made use of by the Directors for the benefit of our Company until claimed. Any dividend which has remained unclaimed for six years after having become payable shall, if the Directors so resolve, be forfeited and cease to remain owing by our Company.

### INDEMNITY

Subject to the provisions of the Companies Ordinance, but without prejudice to any indemnity to which a Director may otherwise be entitled every Director, former Director, responsible person, officer or auditor of our Company shall be indemnified out of the assets of our Company against any liability, loss or expenditure incurred by him in defending any proceedings, whether civil or criminal, which relate to anything done or omitted to be done or alleged to have been done or omitted to be done by him as a Director, former Director, responsible person, officer or auditor of our Company.

The above paragraph shall not apply to:

- (a) any liability of the Director, former Director, responsible person, officer or auditor to pay:
  - (i) a fine imposed in criminal proceedings; or
  - (ii) a sum payable by way of a penalty in respect of non-compliance with any requirement of a regulatory nature; or
- (b) any liability incurred by the Director, former Director, responsible person, officer or auditor:
  - (i) in defending criminal proceedings in which the Director, former Director, responsible person, officer or auditor is convicted;
  - (ii) in defending civil proceedings brought by our Company, or an associated company of our Company, in which judgment is given against the Director, former Director, responsible person, officer or auditor;
  - (iii) in defending civil proceedings brought on behalf of our Company by a member of our Company or of an associated company of our Company, in which judgment is given against the Director, former Director, responsible person, officer or auditor;
  - (iv) in defending civil proceedings brought on behalf of an associated company of our Company by a member of the associated company or by a member of an associated company of the associated company, in which judgment is given against the Director, former Director, responsible person, officer or auditor; or
  - (v) in connection with an application for relief under section 903 or 904 of the Companies Ordinance in which the Court refuses to grant the Director, former Director, responsible person, officer or auditor relief.

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**APPENDIX III****SUMMARY OF THE ARTICLES OF ASSOCIATION**

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**WINDING UP**

The Directors shall have power in the name and on behalf of our Company to present a petition to the Court for our Company to be wound up.

If our Company is wound up, the liquidator may, with the sanction of a special resolution and any other sanction required by law, divide among the members in specie the whole or any part of the assets of our Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he may with the like sanction determine, but no member shall be compelled to accept any assets upon which there is a liability.

**UNTRACED MEMBERS**

Without prejudice to the rights of our Company, our Company may cease sending such check for dividend entitlement or dividend warrants by post if such check or warrants have been left uncashed on two consecutive occasions or after the first occasion on which a check or warrant is returned undelivered.

Our Company shall be entitled to sell in such manner as the Directors think fit any share held by a member, or any share to which a person is entitled by transmission, if:

- (a) all check or warrants, being not less than three in total number, in respect of the shares in question sent during the relevant period in the manner authorized by the articles of our Company have remained uncashed or unclaimed;
- (b) so far as it is aware at the end of the relevant period, our Company has not at any time during the relevant period received any indication of the existence of the shareholder who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law;
- (c) at the end of the relevant period, our Company has caused an advertisement in English in one English language newspaper and in Chinese in one Chinese language daily newspaper and by notice to the Stock Exchange (if shares of the class concerned are listed on that exchange) gives notice of its intention to sell such shares;
- (d) our Company has not during the further period of three months after the date of the advertisement and prior to the sale of the shares received any communication from the member or person concerned.

For the purpose of the foregoing, "relevant period" means the period commencing 12 years before the date of publication of the advertisement referred to in sub-paragraph (c) above and ending at the expiry of the period referred to in that paragraph.

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**APPENDIX III**

**SUMMARY OF THE ARTICLES OF ASSOCIATION**

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The manner, timing and terms of any sale of shares pursuant to this Article (including, but not limited to, the price or prices at which the same is made) shall be such as the Directors determine, based upon advice from such bankers, brokers or other persons consulted by them for the purpose as the Directors consider appropriate, to be reasonably practicable having regard to all the circumstances, including the number of shares to be disposed of and the requirement that the disposal be made without delay, and the Directors shall not be liable to any person for any of the consequences of reliance on such advice.

To give effect to the sale of any share pursuant to the above paragraph our Company may appoint any person to execute an instrument of transfer of the share, and the instrument shall be as effective as if it had been executed by the registered holder of or person entitled by transmission to, the share. The purchaser shall not be bound to see to the application of the proceeds of sale, nor shall his title to the share be affected by any irregularity in or invalidity of the proceedings relating to the sale. Our Company shall be indebted to the member or other person entitled to the share for an amount equal to the net proceeds of the sale, but no trust or duty to account shall arise and no interest shall be payable in respect of the proceeds of sale. Any sale under the above paragraphs shall include any additional shares which during the relevant period or during any period ending on the date when all the requirements of sub-paragraphs (a) to (d) above have been satisfied have been issued in respect of those held at the beginning of such relevant period and shall be valid and effective notwithstanding that the member holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.



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### FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

#### 1. Incorporation of our Company

Our Company was incorporated in Hong Kong under the Predecessor CO as a private company with limited liability on July 11, 2013 with the initial registered share capital of HK\$1 divided into one ordinary share (then having a par value of HK\$1 each). Our registered office is at Room 2601, 26th Floor, Wing On Centre, No. 111 Connaught Road Central, Hong Kong. Our Company changed our company’s status from a private company to a [REDACTED] company following the approval and adoption of the Articles of Association (which have taken effect from [REDACTED]) by our sole Shareholder by way of resolutions in writing passed on [REDACTED].

On February 7, 2018, the name of our Company was changed to “Tokyo Chuo Auction Holdings Limited 東京中央拍賣控股有限公司” from “TOKYO CHUO AUCTION (HONG KONG) CO., LIMITED 東京中央拍賣(香港)有限公司”. As our Company was incorporated in Hong Kong, our operations are subject to the Companies Ordinance, the Companies (WUMP) Ordinance and the Articles of Association. A summary of certain provisions of the Articles of Association is set out in Appendix III to this document.

#### 2. Changes in share capital of our Company

##### *(a) Changes in the then authorized and issued share capital*

As of the date of incorporation of our Company, Mr. Ando was the sole Shareholder holding one ordinary share of HK\$1 each, being the then entire registered and issued share capital. The following alterations in the share capital of our Company have taken place since the date of incorporation:

- (i) On January 8, 2014, our issued share capital was increased to HK\$100 divided into 100 ordinary shares of HK\$1 each by the allotment and issue for cash of 99 shares of HK\$1 each, among which 48 shares of HK\$1 each was allotted and issued to Mr. Ando and 51 shares of HK\$1 each was allotted and issued to Mr. Feng (who held such entire shares on trust for Mr. Ando);
- (ii) Immediately following completion of the [REDACTED] and the [REDACTED] but taking no account of any Shares which may be issued upon the exercise of the [REDACTED] or the options which may be granted under the Share Option Scheme, [REDACTED] Shares will be issued fully paid or credited as fully paid; and
- (iii) Other than pursuant to the exercise of the [REDACTED] and the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any Shares and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Controlling Shareholder over us.

With effect from March 3, 2014, following the Companies Ordinance becoming effective, provisions in the Articles of Association concerning (among other matters) authorized share capital and par value of shares were abolished.

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Save as disclosed herein and in the paragraphs headed “3. Resolutions in writing of our sole Shareholder passed on [REDACTED]” and “4. Group reorganization” of this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

*(b) Founder shares*

Our Company has no founder shares, management shares or deferred shares.

### 3. Resolutions in writing of our sole Shareholder passed on [REDACTED]

By resolutions in writing of our sole Shareholder passed on [REDACTED]:

- (a) we approved and adopted the Articles of Association with effect from the date of registration of this document with the Registrar of Companies in Hong Kong;
- (b) conditional on (aa) the Listing Committee granting the [REDACTED] of, and permission to deal in, the Shares in issue and to be [REDACTED] as mentioned in this document, (bb) the [REDACTED] having been determined; (cc) the execution and delivery of the [REDACTED]; and (dd) the obligations of the [REDACTED] under the [REDACTED] becoming unconditional and not being terminated in accordance with the terms of the [REDACTED] or otherwise, in each case on or before the day falling 30 days after the date of this document:
  - (i) the [REDACTED] and the grant of the [REDACTED] by our Company were approved and our Directors were authorized to allot and issue the [REDACTED] pursuant to the [REDACTED] and such number of Shares as may be allotted and issued upon the exercise of the [REDACTED];
  - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Other Information — 15. Share Option Scheme” of this Appendix, were approved and adopted and our Directors were authorized to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;
  - (iii) [REDACTED] Shares to be allotted credited as fully paid for nil consideration to Mr. Ando, being the only holder of Shares whose names appeared on the register of members of our Company at the close of business on [REDACTED] (the “[REDACTED]”) and the Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the then existing issued Shares (other than the [REDACTED] and our Directors were authorized to give effect to the [REDACTED];

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- (iv) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in the part of any dividend in accordance with the Articles of Association, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, or under the [REDACTED] or the [REDACTED] or upon the exercise of the [REDACTED], an aggregate number of Shares not exceeding the sum of (aa) 20% of the aggregate number of Shares in issue immediately following completion of the [REDACTED] and [REDACTED] but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED], and (bb) the aggregate number of Shares which may be purchased by us pursuant to the authority granted to our Directors as referred to in subparagraph (vi) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Ordinance to be held, or the passing of an ordinary resolution by our Shareholders in general meeting of our Company revoking or varying the authority given to our Directors, whichever occurs first;
- (v) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed or recognized by the SFC and the Stock Exchange for this purpose with an aggregate number of Shares not exceeding 10% of the aggregate number of Shares in issue immediately following the completion of the [REDACTED] and [REDACTED] but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED] until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Ordinance to be held, or the passing of an ordinary resolution by our Shareholders in general meeting of our Company revoking or varying the authority given to the Directors, whichever occurs first; and
- (vi) the extension of the general mandate to allot, issue and deal with Shares to include the number of Shares which may be purchased or repurchased pursuant to paragraph (v) above.
- (d) the form and substance of each of the service agreements made between our executive Directors and our Company, and the form and substance of each of the appointment letters made between each of our non-executive Director and our independent non-executive Directors with our Company were approved.

#### 4. Group reorganization

The companies comprising our Group underwent a reorganization to rationalize our Group’s structure in preparation for the [REDACTED] of the Shares on the Stock Exchange, details of which are set out in the section headed “History, Reorganization and Corporate Structure — The Reorganization” in this document.

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### 5. Changes in share capital of our subsidiaries

Particulars of our subsidiaries are set out in the Accountant’s Report as set out in Appendix I to this document.

In addition to the alterations described in the paragraph headed “History, Reorganization and Corporate Structure — The Reorganization — Corporate Restructuring” in this document, the following alterations in the share capital of each of our Company’s subsidiaries took place within two years immediately preceding the date of this document:

- (a) TCA Shanghai was established on May 19, 2016 as a wholly foreign-owned enterprise under the laws of the PRC, with a registered capital of RMB500,000. As of the Latest Practicable Date, approximately 45.3% of the registered capital of TCA Shanghai had been fully paid up.
- (b) TCA HK was incorporated in Hong Kong as a limited liability company on February 13, 2018 and, on the same date, one ordinary share of HK\$1 was allotted and issued to our Company.

Save as disclosed herein and in paragraph 4 above, there had been no change to the capital structure of our subsidiaries within the two years immediately prior to the issue of this document.

### 6. Further information about our Group’s PRC establishment

Our Group has interest in the registered capital of a wholly foreign-owned enterprise in the PRC, a summary of its corporate information as at the Latest Practicable Date is set out as follows:

- (i) Name of the enterprise: Shanghai Shengjia Culture Development Co., Ltd\* (上海晟嘉文化發展有限公司)
- (ii) Economic nature: Wholly foreign-owned enterprise
- (iii) Registered owner: TCA Japan
- (iv) Total investment: RMB500,000
- (v) Registered capital: RMB500,000 (approximately 45.3% of the registered capital of TCA Shanghai had been fully paid up)
- (vi) Attributable interest to our Group: 92%
- (vii) Term of operation: From May 19, 2016 to May 18, 2066

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- (viii) Scope of business: cultural and art exchange events organizing, publicity events organizing, corporate image building, exhibition display services, marketing and sales organizing, graphics production and articles writing, design, production, agency and publication of various advertisement, graphic design, website design, ticketing agency (except public transport), international trade, export trade, wholesale of daily necessities, furniture, lightings, gold and silver jewelry, clothes and accessories, office stationeries, domestic electrical appliances, electronic gadgets, crafts, film and video equipment and machineries and equipment, import and export, commission agency (except auction) and relevant supporting business, operational leasing of machineries and equipment, technological development of website programming, technology consulting, technology transfer, technological services, exhibition services, corporate management consulting, commercial information consulting

**7. Repurchase by our Company of our own securities**

This paragraph includes information required by the Stock Exchange to be included in this document concerning the repurchase by our Company of our own securities.

**(a) Provisions of the Listing Rules***(i) Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

*(ii) Source of funds*

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles of Association and the Listing Rules and the applicable laws of Hong Kong. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

*(iii) Trading Restriction*

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A listed company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the

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prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities which would result in the number of the listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A listed company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

Pursuant to a resolution in writing passed by our sole Shareholder on [REDACTED], the Repurchase Mandate was given to our Directors authorizing any repurchase by us of Shares on the Stock Exchange or any other stock exchange on which our securities may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate number of Shares in issue immediately following completion of the [REDACTED] and [REDACTED] but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED], such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Ordinance to be held, or the passing of an ordinary resolution by Shareholders in general meeting of our Company revoking or varying the authority given to our Directors, whichever occurs first.

*(iv) Status of repurchased shares*

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be canceled and destroyed.

*(v) Suspension of repurchase*

A listed company shall not make any repurchase of securities on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

*(vi) Reporting requirements*

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. In addition, a listed company's annual report is required to disclose

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details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchase, where relevant, and the aggregate prices paid.

*(vii) Core connected persons*

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a “core connected person”, that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their close associates and a core connected person is prohibited from knowingly selling his securities to the company on the Stock Exchange.

*(b) Reasons for repurchases*

Our Directors believe that the ability to repurchase Shares is in the interests of our Company and our Shareholders. Repurchases may, depending on the circumstances, result in an increase in the net assets and/or earnings per Share. Our Directors have sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by our Directors at the relevant time having regard to the circumstances then pertaining.

*(c) Funding of repurchases and impact on working capital or gearing position*

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws of Hong Kong.

On the basis of our current financial position as disclosed in this document and taking into account the current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or our gearing position as compared to the position disclosed in this document. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which, in the opinion of our Directors, are from time to time appropriate for us.

*(d) General*

The exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately following the completion of the [REDACTED] and [REDACTED] (assuming the [REDACTED] is not exercised), would result in up to [REDACTED] Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles of Association and the applicable laws of Hong Kong.



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If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person of our Company has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

### FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

#### 8. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years preceding the date of this document and are or may be material:

- (a) a share purchase agreement dated August 30, 2017 entered into by (i) Mr. Ando as seller and (ii) our Company as purchaser for the sale and purchase of the 744 common shares of TCA Japan and 70 class A shares of TCA Japan owned by Mr. Ando at a cash consideration of JPY565,848,030;
- (b) a share purchase agreement dated August 30, 2017 entered into by (i) Mrs. Ando as seller and (ii) our Company as purchaser for the sale and purchase of the 56 common shares of TCA Japan owned by Mrs. Ando at a cash consideration of JPY38,928,120;
- (c) a share purchase agreement dated January 29, 2018 entered into by (i) Xie Jinglin as seller and (ii) our Company as purchaser for the sale and purchase of the 30 class A shares of TCA Japan owned by Xie Jinglin at a cash consideration of JPY18,168,870;
- (d) a share purchase agreement dated January 29, 2018 entered into by (i) Nashida Masayuki as seller and (ii) our Company as purchaser for the sale and purchase of the 20 class A shares of TCA Japan owned by Nashida Masayuki at a cash consideration of JPY12,112,580;
- (e) a subscription agreement dated April 24, 2018 entered into between our Company as issuer, Mr. Ando as guarantor and Mr. Chan as subscriber for the subscription of the Convertible Note in an aggregate principal amount of HK\$7,000,000;
- (f) the Note Instrument dated April 24, 2018 entered into between our Company as the issuer and Mr. Chan as the noteholder constituting HK\$7,000,000 Convertible Note;



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- (g) a subscription agreement dated April 24, 2018 entered into between our Company as issuer, Mr. Ando as guarantor and Happy Capricorn as subscriber for the subscription of the Convertible Note in an aggregate principal amount of HK\$7,000,000;
- (h) the Note Instrument dated April 24, 2018 entered into between our Company as the issuer and Happy Capricorn as the noteholder constituting HK\$7,000,000 Convertible Note;
- (i) a subscription agreement dated April 24, 2018 entered into between our Company as issuer, Mr. Ando as guarantor and Paradise Global as subscriber for the subscription of the Convertible Note in an aggregate principal amount of US\$1,000,000;
- (j) the Note Instrument dated April 24, 2018 entered into between our Company as the issuer and Paradise Global as the noteholder constituting US\$1,000,000 convertible note;
- (k) a subscription agreement dated April 24, 2018 entered into between our Company as issuer, Mr. Ando as guarantor and Mr. Tse as subscriber for the subscription of the Convertible Note in an aggregate principal amount of HK\$3,000,000;
- (l) the Note Instrument dated April 24, 2018 entered into between our Company as the issuer and Mr. Tse as the noteholder constituting HK\$3,000,000 Convertible Note;
- (m) a subscription agreement dated April 24, 2018 entered into between our Company as issuer, Mr. Ando as guarantor and Mr. Yang as subscriber for the subscription of the Convertible Note in an aggregate principal amount of HK\$7,000,000;
- (n) the Note Instrument dated April 24, 2018 entered into between our Company as the issuer and Mr. Yang as the noteholder constituting HK\$7,000,000 Convertible Note;
- (o) a subscription agreement dated April 25, 2018 entered into between the Company as issuer, Mr. Ando as guarantor and Centurion Equity as subscriber for the subscription of the Convertible Note in an aggregate principal amount of HK\$7,000,000;
- (p) the Note Instrument dated April 25, 2018 entered into between our Company as the issuer and Centurion Equity as the noteholder constituting HK\$7,000,000 Convertible Note;
- (q) the Investors’ Rights Agreement;
- (r) the Framework Consignment Agreement;
- (s) a deed of indemnity dated [REDACTED] executed by Mr. Ando with and in favor of our Company (for ourselves and as trustee for our subsidiaries stated therein) containing the indemnities more particularly referred to in the paragraph headed “16. Estate duty, tax and other indemnities” of this Appendix; and
- (t) the [REDACTED].

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**9. Material properties of our Group**

As at the Latest Practicable Date, our Group had the following material properties with the details set out below:

<u>Address and Description of Location</u>	<u>Use</u>	<u>Area (approximate)</u>	<u>Restrictions on use</u>	<u>(A) Type of ownership/ (B) Term of lease</u>	<u>Details of encumbrances, liens, pledges and mortgages</u>
2nd and 3rd floor, Kyobashi-Square, 3-7-5 Kyobashi Chuo-ku Tokyo Japan <i>(Note 1)</i>	Office	707 square meters	only for usage as an office	(A) Leased (B) Initial term from December 1, 2011 to March 31, 2014, automatically renewed to March 31, 2016, and further automatically renewed to March 31, 2018, and has been recently automatically renewed again to March 31, 2020	Nil
Rooms 2601-4, 26th Floor, Wing On Centre No. 111 Connaught Road Central Hong Kong <i>(Note 2)</i>	Office	4,700 square feet	as commercial office only	(A) Leased (B) October 16, 2017 to October 15, 2020	Mortgaged to a bank

*Notes:*

1. The property is located in a commercial district in Tokyo, Japan.
2. The property is located in a commercial district in Hong Kong.

There were no investigations, notices, pending litigation, breaches of law or title defects in relation to our above material properties.

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**10. Intellectual property rights of our Group**

*(a) Trademark*

As at the Latest Practicable Date, our Group was the registered owner and beneficial owner of the following trademark which is material in relation to our Group’s business:

<u>Trademark</u>	<u>Place of registration</u>	<u>Registration number</u>	<u>Name of registrant</u>	<u>Class</u>	<u>Date of registration</u>
	Hong Kong	304357477	Our Company	16, 35 <i>(Notes 1 and 2)</i>	December 5, 2017

*Notes:*

- (1) The specific products under class 16 in respect of which the trademark was applied for registration are paper and cardboard; printed matter; bookbinding material; photographs; stationery and office requisites, except furniture; adhesives for stationery or household purposes; artists’ and drawing materials; paintbrushes; instructional and teaching materials; plastic sheets, films and bags for wrapping and packaging; printers’ type, printing blocks.
- (2) The specific products under class 35 in respect of which the trademark was applied for registration are advertising; business management; business administration; office functions, arranging commercial exhibitions and trade fairs, auctioneering.

*(b) Domain Name*

As at the Latest Practicable Date, our Group is the registered owner of, or otherwise has the right to use, the following domain names which are material in relation to our Group’s business:

<u>Domain Name</u>	<u>Registration Date</u>	<u>Expiry Date</u>
chuo-auction.com.hk	May 12, 2014	May 13, 2020
chuo-auction.co.jp	November 15, 2010	November 30, 2023

**11. Connected transactions and related party transactions**

Save as disclosed in the section headed “Continuing Connected Transactions” of this document and in note 30 to the Accountant’s Report, the text of which is set out in Appendix I to this document, during the two years immediately preceding the date of this document, we have not engaged in any other material connected transactions or related party transactions.

**FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS**

**12. Directors**

*(a) Disclosure of interests of Directors*

- (i) Mr. Ando and Mrs. Ando are interested in the Reorganization.
- (ii) Save as disclosed in this document, none of our Directors or their associates was engaged in any dealings with our Group during the two years preceding the date of this document.

*(b) Particulars of Directors' service contracts*

*Executive Directors*

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from [REDACTED] which may be terminated by either party by giving not less than three months' written notice. The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months' written notice expiring at the end of the initial term of their appointment or any time thereafter to the other.

During the term of the service contract, each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment after April 1, 2019<sup>#</sup> at the discretion of the Directors of not more than 10% of the average annual salary for the 12 months immediately prior to such increase).

In addition, during the term of the service contract, each of the executive Directors is also entitled to a discretionary management bonus in such sum as the Board may in its absolute discretion determine provided that the aggregate amount of bonuses payable to all the executive Directors for any financial year of our Company shall not exceed 10% of the audited consolidated or combined net profit attributable to the shareholders of us (after taxation and minority interests and payment of such bonuses but before extraordinary or exceptional items) in respect of that financial year of our Company. An executive Director may not vote on any resolution of the Directors regarding the amount of management bonus payable to him/her.

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The current basic annual salaries of the executive Directors payable under their service contracts are as follows:

Name	Annual salary (HK\$)
Mr. Ando	240,000
Mrs. Ando	240,000
Mr. Katsu	Nil
Mr. Sun	Nil
Mr. Yau	Nil

Pursuant to the service contract of Mr. Ando, our Group has purchased two life insurance policies for Mr. Ando so as to compensate our Group against losses resulting from the loss of Mr. Ando as a key man to our Group during the term of the insurance policies, and to serve as a life insurance for Mr. Ando after the expiry thereof. Under the service contract, Mr. Ando is entitled to all the benefits and payout under two life insurance policies upon the expiry thereof.

Pursuant to the service contract of Mr. Sun, an apartment in Japan will be provided for Mr. Sun as staff dormitory by our Group, and Mr. Sun shall bear half of the monthly rental of such apartment.

As at the Latest Practicable Date, each of Mr. Ando, Mrs. Ando, Mr. Katsu and Mr. Sun has also entered into an employment contract with TCA Japan, a direct non-wholly owned subsidiary of our Company in Japan, for a term commencing from [REDACTED], and will continue thereafter until terminated by either party by giving not less than 30 days' written notice. The current basic monthly salary of Mr. Ando, Mrs. Ando, Mr. Katsu and Mr. Sun under their respective employment contracts with TCA Japan is JPY6.5 million, JPY2.2 million, JPY1.2 million and JPY1.5 million.

Mr. Yau has also entered into an employment contract with our Company in relation to his appointment as chief financial officer of our Group, for a term commencing from January 15, 2018 and will continue thereafter until terminated by either party by giving not less than three months' written notice. The current basic monthly salary of Mr. Yau under his employment contract with our Company is HK\$125,000.

### *Non-executive Director and Independent non-executive Directors*

The non-executive Director and each of the independent non-executive Directors has been appointed for an initial term of three years commencing from [REDACTED], which may be terminated by either party giving not less than three months' written notice. The term of appointment shall be renewed and extended automatically for successive term of one year upon expiry of the then current term until terminated by either party giving not less than three months' written notice to the other. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of the non-executive Director and independent non-executive Directors is entitled to a director's fee of HK\$240,000 per annum with effect from the

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[REDACTED]. Save for directors' fees, none of the non-executive Director or the independent non-executive Directors is expected to receive any other remuneration for holding their office as an non-executive Director and independent non-executive Director, respectively.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

**(c) *Remuneration of Directors***

- (i) The aggregate emoluments paid and benefits in kind granted by our Group to our Directors in respect of the financial year ended March 31, 2016, 2017 and 2018 were approximately HK\$7.9 million, HK\$10.1 million and HK\$11.0 million, respectively.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including our non-executive Director and independent non-executive Directors) for the year ending March 31, 2019, are expected to be approximately HK\$12.5 million.
- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended March 31, 2018 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended March 31, 2018.

**(d) *Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations***

Immediately following completion of the [REDACTED] and the [REDACTED] and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and the options which may be granted under the Share Option Scheme, the interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to notified to our Company and the Stock

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Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed, will be as follows:

<u>Name of Director</u>	<u>Name of Group member/ associated corporation</u>	<u>Capacity/nature of interest</u>	<u>Number and class of securities</u>	<u>Approximate percentage of shareholding</u>
			<i>(Note 1)</i>	
Mr. Ando	Our Company	Beneficial owner	[REDACTED] Shares (L)	[REDACTED]%
Mrs. Ando	Our Company	Interest of spouse <i>(Note 2)</i>	[REDACTED] Shares (L)	[REDACTED]%
Mr. Katsu	TCA Japan	Beneficial owner <i>(Note 3)</i>	50 class A shares (L)	5%

*Notes:*

1. The letter “L” denotes our Directors’ long position in the shares of our Company or the relevant associated corporation.
2. Mrs. Ando is the spouse of Mr. Ando. Under the SFO, Mrs. Ando is taken to be interested in the same number of Shares in which Mr. Ando is interested.
3. These shares represent class A shares held by Mr. Katsu. Shareholders of class A shares do not have any voting right at the general meeting of shareholders of TCA Japan.

**13. Interest discloseable under the SFO and substantial shareholders**

So far as is known to our Directors, immediately following completion of the [REDACTED] and the [REDACTED] (but without taking account of any Shares which may be taken up or acquired under the [REDACTED] and any Shares which may be allotted, and issued upon the exercise of the [REDACTED] and the options which may be granted under the Share Option Scheme), other than a Director or chief executive of our Company whose interests are disclosed under the sub-paragraph headed “Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations” above, no other persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group.

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### 14. Disclaimers

Save as disclosed in this Appendix and the sections headed “History, Reorganization and Corporate Structure”, “Continuing Connected Transactions” and “[REDACTED]” in this document:

- (a) and taking no account of any Shares which may be taken up or acquired under the [REDACTED] or upon the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme, the Directors are not aware of any person (not being a Director or chief executive of our Company) who immediately following the completion of the [REDACTED] and the [REDACTED] will have an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will, either directly or indirectly, be interested in 10% or more of the issued voting shares of any other member of our Group;
- (b) none of the Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO ) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, in each case once the Shares are [REDACTED];
- (c) none of the Directors nor any of the parties listed in the paragraph headed “22. Qualifications of experts” below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the [REDACTED] either in his own name or in the name of a nominee;
- (d) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to business of our Group;
- (e) none of the Directors nor any of the parties listed in the paragraph headed “22. Qualifications of experts” below is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to business of us; and
- (f) save in connection with the [REDACTED], none of the parties listed in the paragraph headed “22. Qualifications of experts” below:
  - (i) is interested legally or beneficially in any securities of any member of our Group; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; or



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- (iii) is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to business of our Group.

### OTHER INFORMATION

#### 15. Share Option Scheme

##### (a) *Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by the then sole Shareholder on [REDACTED]:

##### (i) *Purposes of the scheme*

The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to us. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable us to reward the employees, the Directors and other selected participants for their contributions to us. Given that the Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of us so as to bring about an increased market price of the Shares in order to capitalize on the benefits of the options granted.

##### (ii) *Who may join*

The Directors may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity ("**Invested Entity**") in which any member of us holds an equity interest;
- (bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of us or any Invested Entity;
- (dd) any customer of any member of us or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to any member of us or any Invested Entity;
- (ff) any shareholder of any member of us or any Invested Entity or any holder of any securities issued by any member of us or any Invested Entity;

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- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of us or any Invested Entity;
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of us;

and, for the purposes of the Share Option Scheme, the offer for the grant of option may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.

For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of us to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to an offer for the grant of any option shall be determined by the Directors from time to time on the basis of the Directors' opinion as to his contribution to the development and growth of us.

*(iii) Maximum number of the Shares*

- (aa) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by us must not in aggregate exceed 30% of the share capital of our Company in issue from time to time.
- (bb) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of us) to be granted under the Share Option Scheme and any other share option scheme of us must not in aggregate exceed 10% of the Shares in issue on the [REDACTED], being [REDACTED] Shares ("**General Scheme Limit**").
- (cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of us must not exceed 10% of the Shares in issue as at the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, canceled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of us) previously granted under the Share Option Scheme and any other share option scheme of us will not be counted. The circular sent by our Company to the Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

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(dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a generic description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

*(iv) Maximum entitlement of each participant*

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of us (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the Shareholders in general meeting of our Company with such grantee and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

*(v) Grant of options to the Directors, chief executive or substantial shareholders of our Company or their respective associates*

(aa) Any grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by independent non-executive Directors (excluding independent non-executive Director who or whose associates is the proposed grantee of the options).

(bb) Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each offer for the grant, in excess of HK\$5 million;

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such further grant of options must be approved by Shareholders in general meeting. Our Company must send a circular to the Shareholders, within such time as may be specified in the Listing Rules. The grantee, his associates and all core connected persons of our Company must abstain from voting in favor at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director or any of their respective associates must be approved by the Shareholders in general meeting.

*(vi) Time of acceptance and exercise of option*

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

*(vii) Performance targets*

Unless the Directors otherwise determined and stated in the offer for the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

*(viii) Subscription price for the Shares and consideration for the option*

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; and (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

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*(ix) Ranking of the Shares*

The Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the articles of association of our Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members (the “**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the completion of the registration of the name of the grantee on the register of members of our Company as the holder thereof.

Unless the context otherwise requires, references to “Shares” in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of our Company from time to time.

*(x) Restrictions on the time of the offer for the grant of options*

No offer for grant of options shall be made after inside information has come to our Company’s knowledge until we have announced the information. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and (bb) the deadline for our Company to publish an announcement of our results for any year, half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, no offer for the grant of options may be made.

The Directors may not make any offer for the grant of option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

*(xi) Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

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*(xii) Rights on ceasing employment*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and shall not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with us or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Company, any of our subsidiaries or any Invested Entity.

*(xiii) Rights on death, ill-health or retirement*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with us or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

*(xiv) Rights on dismissal*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offense (other than an offense which in the opinion of the Directors does not bring the grantee or us or the Invested Entity into disrepute), his option (to the extent not already exercised) will lapse automatically on the date of cessation to be an Eligible Employee.

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*(xv) Rights on breach of contract*

If the Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and us or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of us by reason of the cessation of its relations with us or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option Scheme shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above, his option will lapse automatically on the date on which the Directors have so determined.

*(xvi) Rights on a general offer, a compromise or arrangement*

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavors to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date which such offer (or, as the case may be, revised offer) closed or the relevant date for entitlements under such scheme of arrangement, as the case may be.

*(xvii) Rights on winding up*

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolutions to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation pari passu with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.



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*(xviii) Grantee being a company wholly owned by eligible participants*

If the grantee is a company wholly owned by one or more eligible participants:

(aa) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fail to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and

(bb) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that the Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

*(xix) Adjustments to the subscription price*

In the event of a capitalization issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company while an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being or an independent financial adviser to our Company as fair and reasonable will be made to the number of Shares to which the Share Option Scheme or any option relates (insofar as it is/they are unexercised) and/or the subscription price of the option concerned and/or (unless the grantee of the option elects to waive such adjustment) the number of Shares comprised in an option or which remains comprised in an option, provided that (aa) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (bb) the issue of Shares or other securities of us as consideration in a transaction may not be regarded as a circumstance requiring adjustment; (cc) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and (dd) any adjustment must be made in compliance with the Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any adjustment made on a capitalization issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

*(xx) Cancellation of options*

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of the Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so canceled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant sub-paragraphs (iii) (cc) and (dd) above.



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## STATUTORY AND GENERAL INFORMATION

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### *(xxi) Termination of the Share Option Scheme*

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

### *(xxii) Rights are personal to the grantee*

An option is personal to the grantee and shall not be transferable or assignable.

### *(xxiii) Lapse of option*

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the option period in respect of such option;
- (bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); and
- (cc) the date on which the Directors exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) above by the grantee.

### *(xxiv) Miscellaneous*

- (aa) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the [REDACTED] of, and permission to deal in, such number of Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.
- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

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- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the shareholders of our Company in general meeting.

**(b) *Present status of the Share Option Scheme***

*(i) Approval of the Listing Committee required*

The Share Option Scheme is conditional on the [REDACTED] Committee of the Stock Exchange granting the [REDACTED] of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

*(ii) Application for approval*

Application has been made to the [REDACTED] Committee of the Stock Exchange for the [REDACTED] of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

*(iii) Grant of option*

As at the date of this document, no options have been granted or agreed to be granted under the Share Option Scheme.

*(iv) Value of options*

The Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

*(v) Compliance with the Listing Rules*

The Share Option Scheme complies with Chapter 17 of the Listing Rules.

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**16. Estate duty, tax and other indemnity**

Mr. Ando (the "**Indemnifier**") has entered<sup>#</sup> into the Deed of Indemnity with and in favor of our Company (for itself and as trustee for each of our subsidiaries stated therein) to provide indemnities on several basis in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group on or before the [REDACTED]; and
- (b) taxation, together with all reasonable costs (including legal costs), fines, penalties, costs, charges, expense and other liabilities which may be incurred by any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the [REDACTED] or any transaction or event entered into or occurring on or before the [REDACTED] whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation are chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifier is under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to March 31, 2018;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on April 1, 2018 and ended on the [REDACTED], where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifier, otherwise than any such act, omission or transaction:
  - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after April 1, 2018; or
  - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before March 31, 2018 or pursuant to any statement of intention made in the document; or
- (c) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to March 31, 2018 and which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifier's liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifier's liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or

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## STATUTORY AND GENERAL INFORMATION

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- (d) to the extent that such taxation liabilities or claim arises or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of Japan or the PRC, or any other relevant authority (whether in Hong Kong or Japan or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such claim arises or is increased by an increase in rates of taxation or taxation claim after the date of the Deed of Indemnity with retrospective effect.

Under the Deed of Indemnity, the Indemnifier has also undertaken to us that he will indemnify and at all times keep each of the members of our Group fully indemnified on demand from and against all losses, claims, actions, demands, liabilities, damages, costs, expenses, fines, penalties and charges and of whatever nature suffered or incurred by any member of our Group directly or indirectly arising out of or in connection with the non-compliance or alleged non-compliance by any member of our Group with any applicable laws and regulations on or before the [REDACTED].

Under the deed of indemnity, the Indemnifier has also undertaken to us that he will indemnify and at all times keep each of the members of our Group fully indemnified, on demand for any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), costs, expenses, damages or other liabilities which any member of our Group may incur or suffer arising from or in connection with the implementation of the Reorganization.

### 17. Litigation

As of the Latest Practicable Date, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Group member, that would have a material adverse effect on our results of operations or financial condition of our Group.

### 18. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately HK\$10,000 and have been paid by our Company.

### 19. Promoter

- (a) Our Company does not have any promoter.
- (b) Within the two years preceding the date of this document, no amount or benefit has been paid or given to any promoters of our Company in connection with the [REDACTED] or the related transactions described in this document.

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### 20. Agency fees or commissions received

For details of the agency fees or commissions (including the discretionary incentive fees)<sup>#</sup> to be received by the [REDACTED], please refer to the section headed “[REDACTED] — Total Commissions and Expenses” in this document. Save as disclosed therein, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital and/or debenture of any member of our Group within the two years immediately preceding the date of this document.

### 21. The Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the [REDACTED] Committee for [REDACTED] of, and permission to deal in, the Shares in issue and to be issued as mentioned in this document and any Shares which may be issued upon the exercise of the [REDACTED] and any option which may be granted under the Share Option Scheme, on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into [REDACTED].

The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules.

The sponsor’s fees payable by us in respect of the Sole Sponsor’s services as sponsor for the [REDACTED] is HK\$[REDACTED].

### 22. Qualifications of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

<u>Name</u>	<u>Qualification</u>
CMBC International Capital Limited	Licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
PricewaterhouseCoopers	Certified Public Accountants
Anderson Mori & Tomotsune	Japanese attorneys-at-law
Jingtian & Gongcheng	Qualified PRC lawyers
China Insights Consultancy	Industry Consultant

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### 23. Consents of experts

Each of the experts as set out in paragraph 22 above has given and has not withdrawn their respective written consents to the issue of this document with the inclusion of their report and/or letter and/or legal opinion and/or opinion (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they respectively appear.

### 24. Binding effect

This document shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

### 25. Taxation of holders of Shares

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasized that none of our Company, our Directors or the other parties involved in the [REDACTED] can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

### 26. Miscellaneous

- (a) Save as disclosed in this Appendix and in the sections headed "History, Reorganization and Corporate Structure" and "[REDACTED]" in this document:
  - (i) within two years preceding the date of this document:
    - (aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
    - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and

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- (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;
- (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
- (b) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since March 31, 2018 (being the date to which the latest audited consolidated financial statements of our Group were made up).
- (c) our Directors confirm that there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document.

**27. Bilingual document**

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses for Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).





**APPENDIX V**

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES  
IN HONG KONG AND AVAILABLE FOR INSPECTION**

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- (j) the written consents referred to in the paragraph headed “Other Information — 23. Consents of Experts” in Appendix IV to this document; and
- (k) the industry report prepared by China Insights Consultancy, the extracts of which is set out in the section headed “Industry Overview” to this document.