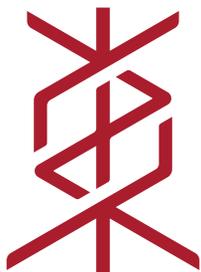


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東京中央拍賣控股有限公司
TOKYO CHUO AUCTION HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 1939)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023**

FINANCIAL HIGHLIGHTS

- The unaudited consolidated revenue of the Group for the six months ended 30 September 2023 amounted to approximately HK\$32.2 million, decreased by approximately 29.1% of as compared with the same period in 2022 (six months ended 30 September 2022: approximately HK\$45.4 million).
- The unaudited consolidated profit attributable to the owners of the Company for the six months ended 30 September 2023 amounted to approximately HK\$1.6 million (six months ended 30 September 2022: approximately HK\$7.6 million).
- For the six months ended 30 September 2023, the basic and diluted earnings per share were HK0.32 cents (six months ended 30 September 2022: HK1.52 cents).
- The Board has resolved not to declare interim dividend for the six months ended 30 September 2023 (six months ended 30 September 2022: Nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Tokyo Chuo Auction Holdings Limited (the “**Company**”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2023 (the “**Reporting Period**”) together with the comparative figures for the corresponding period in 2022.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

		Unaudited	
		Six months ended	
		30 September	
		2023	2022
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	5	32,194	45,433
Cost of services	8	(2,051)	(1,999)
Cost of sales of goods	8	(642)	(6,034)
		<hr/>	<hr/>
Gross profit		29,501	37,400
Other losses — net	6	—	(275)
Other income	7	231	585
Selling and distribution expenses	8	(10,910)	(11,938)
Administrative expenses	8	(16,603)	(15,393)
		<hr/>	<hr/>
Operating profit		2,219	10,379
Finance income	9	130	31
Finance costs	9	(243)	(581)
Share of result of associate		584	553
		<hr/>	<hr/>
Profit before income tax		2,690	10,382
Income tax expense	10	(1,001)	(2,581)
		<hr/>	<hr/>
Profit for the period		1,689	7,801
		<hr/> <hr/>	<hr/> <hr/>
Profit attributable to:			
Owners of the Company		1,599	7,622
Non-controlling interests		90	179
		<hr/>	<hr/>
		1,689	7,801
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share for profit attributable to owners of the Company			
Basic and diluted (HK cents)	11	HK0.32 cents	HK1.52cents
		<hr/> <hr/>	<hr/> <hr/>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Unaudited	
	Six months ended	
	30 September	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	<u>1,689</u>	<u>7,801</u>
Other comprehensive loss:		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Exchange differences on translating foreign operations	<u>(6,046)</u>	<u>(14,825)</u>
Total other comprehensive loss for the period, net of tax	<u>(6,046)</u>	<u>(14,825)</u>
Total comprehensive loss for the period	<u><u>(4,357)</u></u>	<u><u>(7,024)</u></u>
Total comprehensive loss for the period attributable to:		
Owners of the Company	(4,055)	(6,576)
Non-controlling interests	<u>(302)</u>	<u>(448)</u>
	<u><u>(4,357)</u></u>	<u><u>(7,024)</u></u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2023

		Unaudited	Audited
		30 September	31 March
		2023	2023
	<i>Notes</i>	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		7,192	5,984
Right-of-use assets		1,358	3,364
Intangible assets		2,791	3,792
Investment accounted for using the equity method		5,859	5,846
Financial asset at fair value through profit or loss		850	850
Deferred income tax assets		1,164	1,363
Deposits and prepayments	14	2,806	30
		<u>22,020</u>	<u>21,229</u>
Current assets			
Inventories		127,101	129,248
Trade and other receivables	13	148,048	181,807
Deposits and prepayments	14	55,660	60,885
Tax recoverable		17	1,552
Pledged bank deposits		4,000	4,000
Cash and cash equivalents		79,127	67,280
		<u>413,953</u>	<u>444,772</u>
Total assets		<u>435,973</u>	<u>466,001</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	15	169,730	169,730
Reserves		85,532	89,587
		<u>255,262</u>	259,317
Non-controlling interests		<u>3,469</u>	<u>3,771</u>
Total Equity		<u>258,731</u>	<u>263,088</u>

		Unaudited	Audited
		30 September	31 March
		2023	2023
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Lease liabilities		1,145	1,513
Borrowings	16	27,631	30,735
Deferred income tax liabilities		1,960	2,210
		<u>30,736</u>	<u>34,458</u>
Current liabilities			
Trade and other payables and accruals	17	132,637	146,596
Lease liabilities		402	2,597
Borrowings	16	12,203	18,597
Current income tax liabilities		1,264	665
		<u>146,506</u>	<u>168,455</u>
Total liabilities		<u>177,242</u>	<u>202,913</u>
Total equity and liabilities		<u>435,973</u>	<u>466,001</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

Tokyo Chuo Auction Holdings Limited is a limited liability company incorporated in Hong Kong. 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's subsidiaries principally engage in the provision of auction and related services as well as artwork sales in Hong Kong and Japan.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

This interim condensed consolidated financial information is presented in Hong Kong dollars ("**HK\$'000**") unless otherwise stated and has been approved for issue by the Board on 28 November 2023.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 September 2023 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2023, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

The consolidated financial information relating to the year ended 31 March 2023 that is included in the interim condensed consolidated financial information for the six months ended 30 September 2023 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. Further information relating to these statutory consolidated financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 March 2023 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company's auditor has reported on those consolidated financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

3 CHANGE IN ACCOUNTING POLICIES

In the current reporting period, the Group has applied, for the first time, certain new standards, amendments to standards and interpretations issued by the HKICPA that are mandatorily effective for its accounting period beginning on 1 April 2023. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior year.

The Group has not yet applied new standards and amendments to existing standards that have been issued but not yet effective, and will apply such standards when they become effective. The Group anticipates that the application of the such new standards and amendments to existing standards have no material impact on the results and the financial position of the Group.

4 ESTIMATES

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions, the estimates and judgements are continually evaluated and are based on historical experience and other factors including expectation on future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

In preparing the interim condensed and assumption information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were similar to those that were applied to the consolidated financial statements for the year ended 31 March 2023.

5 REVENUE AND SEGMENT INFORMATION

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 current period and comparative figures are as follows:

	Unaudited For the six months ended 30 September 2023		
	Operation of art auction and related business <i>HK\$'000</i>	Artwork sales <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue from external customers	31,495	699	32,194
Costs of service/sales	<u>(2,051)</u>	<u>(642)</u>	<u>(2,693)</u>
Segment results	29,444	57	29,501
Other income			231
Selling and distribution expenses			(10,910)
Administrative expenses			<u>(16,603)</u>
Operating profit			2,219
Share of result of an associate accounted for using the equity method			584
Finance costs — net			<u>(113)</u>
Profit before income tax			2,690
Income tax expense			<u>(1,001)</u>
Profit for the period			<u>1,689</u>

Unaudited
For the six months ended
30 September 2022

	Operation of art auction and related business <i>HK\$'000</i>	Artwork sales <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue from external customers	38,712	6,721	45,433
Costs of service/sales	<u>(1,999)</u>	<u>(6,034)</u>	<u>(8,033)</u>
Segment results	36,713	687	37,400
Other losses, net			(275)
Other income			585
Selling and distribution expenses			(11,938)
Administrative expenses			<u>(15,393)</u>
Operating Profit			10,379
Share of result of an associate accounted for using the equity method			553
Finance costs — net			<u>(550)</u>
Profit before income tax			10,382
Income tax expense			<u>(2,581)</u>
Profit for the period			<u><u>7,801</u></u>
Revenue			

	Unaudited Six months ended 30 September	
	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue from art auction and related business	31,495	38,712
Artwork sales	<u>699</u>	<u>6,721</u>
	<u>32,194</u>	<u>45,433</u>

All customers individually accounted for less than 10% of the Group's revenue during the six months ended 30 September 2023 (30 September 2022: same).

All revenues of the Group are recognized at a point in time.

Revenue from external customers, by geographical area, is as follows:

	Unaudited	
	Six months ended	
	30 September	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	8,345	12,125
Japan	23,849	33,308
	32,194	45,433

Information on segment assets and segment liabilities of the Group are not reviewed by CODM for the purpose of resource allocation and performance assessment as at 30 September 2023 and 31 March 2023 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:

	Unaudited	Audited
	30 September	31 March
	2023	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	2,055	2,237
Japan	12,092	10,933
Taiwan	6,709	6,696
	20,856	19,866

6 OTHER LOSSES — NET

	Unaudited Six months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
Exchange loss	—	275

7 OTHER INCOME

Other income mainly represented bidding deposits forfeited and penalties from the buyers and miscellaneous handling fees charged to customers during the Reporting Period (30 September 2022: the government subsidy grant, bidding deposits forfeited and penalties from the buyers and miscellaneous handling fees charged to customers).

8 PROFIT BEFORE INCOME TAX

	Unaudited Six months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
Cost of inventories sold	642	6,034
Rental and setup costs for auction and preview exhibition venues	739	257
Employee benefit expenses	10,097	10,790
Depreciation of property, plant and equipment	941	657
Depreciation of right-of-use assets	3,226	3,004
Amortization of intangible assets	173	252

9 FINANCE (COSTS)/INCOME — NET

	Unaudited	
	Six months ended	
	30 September	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Finance income:		
Interest income on bank deposits	130	31
Interest income from consignor advance	—	—
	<u>130</u>	<u>31</u>
Finance costs:		
Interest expense on lease liabilities	(17)	(138)
Interest expense on bank and other borrowings	(226)	(443)
	<u>(243)</u>	<u>(581)</u>
Finance costs — net	<u>(113)</u>	<u>(550)</u>

10 INCOME TAX EXPENSE

The amount of income tax charged to the interim condensed consolidated income statements represent:

	Unaudited	
	Six months ended	
	30 September	
	2023	2022
	HK\$'000	HK\$'000
Current income tax		
— Hong Kong	—	814
— Japan	887	1,767
— Taiwan	62	—
	<hr/>	<hr/>
Total current income tax	949	2,581
Deferred income tax	52	—
	<hr/>	<hr/>
Income tax expense	<u>1,001</u>	<u>2,581</u>

(a) Hong Kong profit tax

Hong Kong profits tax is calculated at a rate of 16.5% for the six months ended 30 September 2023 and 30 September 2022.

No Hong Kong profits tax was provided for the six months ended 30 September 2023 as the Group did not derive any estimated assessable profits (30 September 2022: income tax expenses incurred approximately HK\$814,000).

(b) Japan corporate income tax

Japan corporate income tax has been calculated on the estimated assessable profit for the six months ended 30 September 2023 and 30 September 2022 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 33% for the Reporting Period (30 September 2022: 33%).

(c) Taiwan income tax

Taiwan income tax is calculated at 20% of the estimated assessable profits for both years.

11 EARNINGS PER SHARE

Basic

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 six months ended 30 September 2023 and 30 September 2022.

	Unaudited	
	Six months ended	
	30 September	
	2023	2022
	HK\$'000	HK\$'000
Profit attributable to the owners of the Company (<i>HK\$'000</i>)	<u>1,599</u>	<u>7,622</u>
Weighted average number of ordinary shares in issue (<i>'000</i>)	<u>500,000</u>	<u>500,000</u>
Basic earnings per share (<i>HK cents</i>)	<u>HK0.32 cents</u>	<u>HK1.52 cents</u>

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares which is the share options granted to director and employees. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Diluted earnings per share for the six months ended 30 September 2023 equal basic earnings per share as the exercise of the outstanding share options would be anti-dilutive (six months ended 30 September 2022: no potential ordinary shares in issue).

12 DIVIDEND

Interim dividend

The Board has resolved not to declare interim dividend for the six months ended 30 September 2023 (six months ended 30 September 2022: Nil).

Final dividend

Dividends paid and payable to equity shareholders of the Company attributable to the previous financial year, paid and payable during the interim period.

	Six months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
No Final dividend in respect of the previous financial year ended 31 March 2023 (31 March 2022: approved and payable during the interim period, of HK 1 cent per share)	—	5,000

13 TRADE AND OTHER RECEIVABLES

	Unaudited As at 30 September 2023 HK\$'000	Audited As at 31 March 2023 HK\$'000
Trade receivables	19,026	16,507
Less: loss allowances	<u>(4,733)</u>	<u>(4,824)</u>
Trade receivables — net	14,293	11,683
Other receivables		
— Receivables from buyers in respect of auction and related business (<i>Note (i)</i>)	87,228	113,843
— Consignor advances (<i>Note (ii)</i>)	41,970	51,699
— Input value-added tax recoverable	1,426	1,081
— Others	<u>3,131</u>	<u>3,501</u>
Trade and other receivables	<u>148,048</u>	<u>181,807</u>

As at 30 September 2023 and 31 March 2023, the fair value of trade and other receivables of the Group approximated their carrying amounts.

Notes:

- (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 approximately HK\$41,970,000 made to certain sellers as at 30 September 2023 (31 March 2023: approximately HK\$51,699,000) upon consignment of auction articles to the Group. As at 30 September 2023 and 31 March 2023, these advances bore interest at 0% to 1% per annum.

The Group 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 30 September 2023 and 31 March 2023, was as follows:

	Unaudited As at 30 September 2023 <i>HK\$'000</i>	Audited As at 31 March 2023 <i>HK\$'000</i>
Within 30 days	12,371	11,369
1 to 3 months	104	122
3 to 6 months	958	377
6 to 12 months	1,278	411
Over 1 year	4,315	4,228
	19,026	16,507

The Group does not hold any collateral as security over these debtors as at 30 September 2023 and 31 March 2023.

14 DEPOSITS AND PREPAYMENTS

	Unaudited As at 30 September 2023 <i>HK\$'000</i>	Audited As at 31 March 2023 <i>HK\$'000</i>
Current portion:		
Prepayments to sellers for auctioned artwork (<i>Note</i>)	33,665	36,584
Deposits and prepayments	<u>21,995</u>	<u>24,301</u>
	<u>55,660</u>	<u>60,885</u>
Non-current portion:		
Rental and other deposits	<u>2,806</u>	<u>30</u>
	<u>58,466</u>	<u>60,915</u>

As at 30 September 2023 and 31 March 2023, the fair value of deposits of the Group approximately their carrying amounts.

Note:

As at 30 September 2023, prepayments to sellers for auctioned artwork represent the amounts advanced to sellers of artwork of approximately HK\$33,665,000 (31 March 2023: approximately HK\$36,584,000). Amounts may be advanced to sellers prior to receiving full payment of the auction purchase prices from the relevant buyers and the Group will keep the related auctioned artworks under its custody. As at 30 September 2023 and 31 March 2023, such prepayments were interest-free and the respective auctioned artwork was kept under the Group's custody.

15 SHARE CAPITAL

Ordinary Shares	Number of Shares	Share capital <i>HK\$'000</i>
Issued and fully paid:		
At 30 September 2023 (unaudited) and 31 March 2023 (audited)	<u>500,000,000</u>	<u>169,730</u>

16 BORROWINGS

	Unaudited As at 30 September 2023 <i>HK\$'000</i>	Audited As at 31 March 2023 <i>HK\$'000</i>
Bank borrowings (<i>Note (a)</i>)	<u>39,834</u>	<u>49,332</u>
Secured	14,465	12,220
Unsecured	<u>25,369</u>	<u>37,112</u>
	<u>39,834</u>	<u>49,332</u>
	Unaudited As at 30 September 2023 <i>HK\$'000</i>	Audited As at 31 March 2023 <i>HK\$'000</i>
The carrying amounts of the above borrowings are repayable*:		
Within one year	11,774	15,640
With a period of more than one year but not exceeding two years	4,153	3,845
With a period of more than two years but not exceeding five years	12,459	11,533
With a period of more than five years	<u>11,019</u>	<u>15,357</u>
	39,405	46,375
The carrying amounts of bank borrowings that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	<u>429</u>	<u>2,957</u>
	39,834	49,332
Less: Amounts due within one year shown under current liabilities	<u>(12,203)</u>	<u>(18,597)</u>
Amounts shown under non-current liabilities	<u>27,631</u>	<u>30,735</u>

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The Group's borrowings are denominated in the following currencies:

	Unaudited As at 30 September 2023 <i>HK\$'000</i>	Audited As at 31 March 2023 <i>HK\$'000</i>
HK\$	429	2,957
JPY	<u>39,405</u>	<u>46,375</u>
	<u>39,834</u>	<u>49,332</u>

Notes:

(a) Bank Borrowings

- (i) The secured variable-rate bank borrowing of approximately HK\$429,000 (31 March 2023: HK\$2,957,000) as at 30 September 2023 was guaranteed by the subsidiary of the Group and pledged by the fixed deposit of approximately HK\$4,000,000 (31 March 2023: HK\$4,000,000). The borrowing is with repayment on demand clause and bearing interest at 2.25% per annum over 1-month HIBOR.
- (ii) The unsecured fixed-rate bank borrowing of approximately HK\$6,346,000 (31 March 2023: HK\$8,647,000) as at 30 September 2023 is repayable on 2030 and bearing interest at 0.9% per annum. It was guaranteed by personal guarantee of Mr. Ando, a director of the Company.
- (iii) The secured fixed-rate bank borrowing of approximately HK\$7,690,000 (31 March 2023: HK\$9,263,000) as at 30 September 2023 is repayable on 2031 and bearing interest at 0.9% per annum. It was secured by property of Mr. Ando and Mrs. Ando, directors of the Company.
- (iv) The unsecured fixed-rate bank borrowings with principal amount of approximately HK\$14,993,000 (31 March 2023: HK\$17,737,000) (equivalent to JPY285,963,000) were received from Japanese bank in which interest were subsidised by Japanese government with lower than market rate and the carrying amounts of approximately HK\$13,429,000 (31 March 2023: HK\$16,641,000) as at 30 September 2023 are repayable in full on year 2030. The prevailing market interest rates for equivalent bank borrowings of 1.11% to 1.91%. The difference of between the gross proceeds and the fair value of the bank borrowings are the benefit derived from the interest-free bank borrowings and are recognised as government grant under other income.
- (v) The unsecured variable-rate bank borrowings of approximately HK\$10,486,000 (31 March 2023: HK\$11,824,000) is repayable within one year and bearing interest at 0.35% to 0.45% per annum over 1-month benchmark interest rate.

17 TRADE AND OTHER PAYABLES AND ACCRUALS

	Unaudited	Audited
	As at	As at
	30 September	31 March
	2023	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	—	—
Payables to sellers in respect of auction and related business	122,860	135,313
Deposits received, other payables and accruals	9,777	11,283
	<u>132,637</u>	<u>146,596</u>

Payables to sellers in respect of auction and related business represent the purchase price of auction articles payables to sellers less seller commissions and other auction related receivables.

As at 30 September 2023 and 31 March 2023, all deposits received, other payables and accruals of the Group were non-interest bearing, and their fair value approximately to their carrying amounts due to their short maturities.

Ageing analysis of the trade payables at the respective balances sheet date on invoice date are as follows:

	Unaudited	Audited
	As at	As at
	30 September	31 March
	2023	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	—	—
	<u>—</u>	<u>—</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are a well-recognised auction house of Chinese and Japanese artworks in Hong Kong and Japan. We specialise 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 teawares. With over ten years of operating experience in the Chinese and Japanese art auction industry, we have grown into a well-recognised and trusted auction brand in Hong Kong and Japan, through our “Tokyo Chuo Auction” brand. By offering appealing auction artworks and quality auction services, we have successfully gained recognition from our customers and established our market position, brand name and competitiveness. 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.

Over the past year, the Group took appropriate actions to improve our operations through different ways, including but not limited to, (i) adopting and utilising professional as well as history-focused and culture-oriented marketing techniques along with quality services to maximise the transaction prices of our auctioned artworks; (ii) further strengthening our market position and market share in the Chinese and Japanese art auction market in Hong Kong and Japan, and enhancing our brand recognition and awareness; (iii) diversifying our business scope by venturing into the field of contemporary artwork and fine & rare whisky and moutai; (iv) recruiting high calibre managers and experts and attracting, motivating and retaining quality employees to strengthen both the management and operating teams with a view to support sustainable growth; and (v) 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 the future, the Group aims at maintaining stable growth and development, and continuously uphold its principle of sourcing excellent artworks with good provenance to explore and collect more valuable artworks for art enthusiasts in the artwork auction market. The Group will allocate more resources to develop its online auction platform, jewelry and contemporary artworks segments to diversify its auction channel, which allow the Group to expand its current business and provide more flexibility to cope with the economic uncertainty in the near future. At the same time, it shall keep looking for apposite business partners for collaboration in auction events. Meanwhile, the management will also cooperate with other auction companies and consider making strategic investments in artworks related business, which would help the Group achieve synergies.

REVENUE

During the Reporting Period, the revenue of the Group was approximately HK\$32.2 million (six months ended 30 September 2022: approximately HK\$45.4 million), which represents a decrease of approximately HK\$13.2 million or approximately 29.1% as compared to the same period in 2022. Such decrease in revenue from art auction and related business and revenue from artwork sales for the Reporting Period was mainly due to the uncertainty in the global economy and the financial markets which has adversely affected the market of Chinese and Japanese artworks in particular, the unpredictability in the market demand, value and conditions for artworks and development of art auction market in general.

GROSS PROFIT

During the Reporting Period, gross profit of the Group decreased by approximately 21.1% to approximately HK\$29.5 million (six months ended 30 September 2022: approximately HK\$37.4 million) as compared to the same period in 2022. Such decrease in gross profit was in line with the decrease in revenue from art auction and related business. Meanwhile, the gross profit margin escalated to approximately 91.6% for the Reporting Period from approximately 82.3% recorded for the same period in 2022.

OTHER LOSSES

No exchange loss was incurred during the Reporting Period (six months ended 30 September 2022: exchange loss of approximately HK\$275,000).

OTHER INCOME

Other income of approximately HK\$231,000 mainly represented by the bidding deposits forfeited and penalties from the buyers and miscellaneous handling fee charged to customers during the Reporting Period (six months ended 30 September 2022: government grant, the bidding deposits forfeited and penalties from the buyers and miscellaneous handling fee charged to customers of approximately HK\$585,000).

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses consist primarily of employee benefit expenses paid to the sales and marketing staffs, advertising and promotion expenses, consultancy fee paid, transportation costs, travelling expenses and entertainment and business hospitality expenses. During the Reporting Period, selling and distribution expenses amounted to approximately HK\$10.9 million (six months ended 30 September 2022: approximately HK\$11.9 million). Such decrease was in line with decrease in revenue for the Reporting Period.

ADMINISTRATIVE EXPENSES

Administrative expenses mainly represent the employee benefit expenses, travelling expenses, rental expenses and depreciation. During the Reporting Period, the administrative expenses of the Group increased by approximately 7.8% to approximately HK\$16.6 million (six months ended 30 September 2022: approximately HK\$15.4 million). Such increase in administrative expenses was mainly due to increase in travelling expense and depreciation of property, plant and equipment for the Reporting Period.

FINANCE INCOME/(COSTS) — NET

The Group recorded finance income of approximately HK\$130,000 (six months ended 30 September 2022: approximately HK\$31,000) and finance costs of approximately HK\$243,000 (six months ended 30 September 2022: approximately HK\$581,000) during the Reporting Period. Finance income mainly represents interest income from bank deposit and interest income from certain consignor advance, and finance costs mainly represent interest expenses on bank and other borrowings and lease liabilities of the Group.

INCOME TAX EXPENSES

Profits tax has been provided for our companies in both Hong Kong and Japan at the applicable rates on the estimated assessable profits. The effective tax rate of the Group during the Reporting Period was 37.2% (six months ended 30 September 2022: 24.9%).

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

During the Reporting Period, the Company recorded a profit attributable to owners of the Company of approximately HK\$1.6 million (six months ended 30 September 2022: approximately HK\$7.6 million), which represents a decrease in profit attributable to owners of the Company was mainly due to the decrease in the revenue for the Reporting Period.

CONSIGNORS ADVANCE

For the consignor advances as at 30 September 2023, the total principal amount was approximately HK\$45.6 million (31 March 2023: HK\$53.2 million) and the total outstanding principal was approximately HK\$42.0 million (31 March 2023: HK\$51.7 million), only one of the consignor advance was granted with interest rate of 1% per annum and the rest of the advances was granted at nil interest rate (31 March 2023: one of consignor advances were granted with interest rate of 1% per annum and the rest of the advances was granted at nil interest rate). During the Reporting Period, the consignor advances was granted to 20 consignors and all of them were either corporate or individual art collectors. The consignor advance was only granted to the consignors after the collateral (which is the consigned artwork) has been obtained by the Group and the consigned artwork should be proposed to sell in subsequent auctions, which mutually

agreed by consignors and the Group (normally within one year). To the best of the knowledge, information and belief of the Directors, all the consignors and their ultimate beneficial owners are third parties independent of the Company and the connected persons of the Company.

As at 30 September 2023, the outstanding amount of consignor advances due from the largest consignor and five largest consignors accounted for approximately 12.5% and 55.7% of the total outstanding amount of consignor advances of the Group respectively (31 March 2023: the largest consignor and five largest consignors accounted for approximately 20.0% and 67.6% respectively).

In order to attract appealing artworks from artwork providers with long-term relationship and good credit history, during the six months ended 30 September 2023 and 2022, the Company provided certain consignors with consignor advances carrying interest accruing on such consignor advances at nil or low interest rates. Under the consignment arrangement, the relevant consignor advances with interests payable (if any) shall be deducted from sales proceeds of the consigned artwork after receiving the full payment of the purchase price from the auction, or in case if the Company failed to sell the consigned artwork at the auction, the consigned artwork shall be returned to the consignor after obtaining full repayment of the consignor advances with accrued interest (if any) from the relevant artwork provider. The business of the Group heavily relies on the artworks provided by these artwork providers and therefore the provision of such advance is for the benefit of the Group's business and not merely for the purpose of earning interest income.

When determining the grant of consignor advances, the Group would initially assess the background of the artwork and the consignors by the taking into factors including (i) obtaining the personal information of the consignor and conduct available public search on the background of the consignor when necessary; (ii) the proposed value of the artwork and collateral offered by the consignor; (iii) the length of business relationship between the Group and the consignor; and (iv) the creditability of the consignor based on the credit history of the consignor.

When determining any impairment made in respect of the consignor advances, the management assessed the expected losses individually by estimation based on general economic conditions of the consignor advance provided and the value of relevant consigned artwork and conditions at the reporting date. Since the fair value amounts of the consigned artwork were higher than the carrying amounts of consignor advance as at 30 September 2023, therefore, no impairment were recorded.

FINANCIAL POSITION AND LIQUIDITY

The Group generally finances its operations with internally generated resources, banking facilities and net proceeds from the listing. As at 30 September 2023 the Group had current assets of the approximately HK\$414.0 million (as at 31 March 2023: approximately HK\$444.8 million) while the Group's cash and cash equivalents amounted to approximately HK\$79.1 million (as at 31 March 2023: approximately HK\$67.3 million).

As at 30 September 2023, the Group has interest-bearing bank borrowings of approximately HK\$39.8 million (as at 31 March 2023: approximately HK\$49.3 million) and of which approximately HK\$12.2 million (as at 31 March 2023: approximately HK\$18.6 million) was repayable within one year.

As at 30 September 2023 and 31 March 2023, the Group did not have other borrowings.

As at 30 September 2023, the Group's gearing ratio was calculated on the basis of the amount of interest-bearing borrowings less cash and cash equivalents divided by shareholders' equity and the Group was in net cash position (as at 31 March 2023: net cash position).

CAPITAL COMMITMENTS

As at 30 September 2023, the Group had no material capital commitment (as at 31 March 2023: Nil). As at the date of this report, the Group had no plan for material investment or capital assets.

CONTINGENT LIABILITIES AND GUARANTEES

As at 30 September 2023, the Group did not provide any guarantees for any third party and had no significant contingent liabilities (as at 31 March 2023: Nil).

SIGNIFICANT INVESTMENTS/MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not hold any material investments, nor did not the Group made any material acquisition and disposal of subsidiaries or associated companies of the Company during the Reporting Period.

TREASURY POLICIES

The Group adopted a prudent strategy towards the treasury and funding policies, and attached high importance to the risk control and transactions directly related to the Group's principal business. Funds, primarily denominated in Japanese Yen and Hong Kong dollars, are normally placed with banks in short or medium term deposits for working capital of the Group.

DIVIDEND

The Directors of the Company do not recommend the payment of an interim dividend for the Reporting Period.

CAPITAL STRUCTURE AND FOREIGN CURRENCY EXPOSURE

During the Reporting Period, the Group's operation was mainly financed by funds generated from its operation, borrowings and net proceeds from the listing. As at 30 September 2023, the borrowings were mainly denominated in Japanese Yen and Hong Kong dollars, while the cash and cash equivalents held by the Group were mainly denominated in Japanese Yen and Hong Kong dollars. All of the Group's borrowings were floating rate borrowings and were pledged by bank deposits of approximately HK\$4.0 million to secure such bank facilities during the Reporting Period. The Group's revenue is mainly denominated in Japanese Yen and Hong Kong dollars, while its costs and expenses are mainly denominated in Japanese Yen and Hong Kong dollars. As the majority portion of the Group's assets, liabilities, revenues and payments during the Reporting Period were denominated in either Japanese Yen or Hong Kong dollars, and in view of the prevailing macro-economic environment, the Group may be exposed to the foreign exchange rate risk. The Group will closely monitor the volatility of foreign exchange rate and apply the appropriate hedging strategy as and when appropriate.

CHARGE ON ASSETS

As at 30 September 2023, bank deposits amounting to HK\$4.0 million (as at 31 March 2023: HK\$4.0 million) was pledged to a bank to secure general banking facilities granted to the Group.

Other than the aforesaid pledged bank deposits, there was no other charge on assets of the Group as at 30 September 2023 (as at 31 March 2023: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 30 September 2023, the Group had 19, 14, 1 and 1 full-time staff based in Japan, Hong Kong, Taiwan and the PRC respectively. The Group's remuneration packages are generally structured with reference to market terms and individual merits. The Group operates a defined contribution retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' base salaries. The Group also made contributions to provident funds, elderly insurance, medical insurance, unemployment insurance and work-related injury insurance in accordance with applicable laws and regulations in Japan, Taiwan and the PRC respectively.

The Group has adopted a share option scheme on 13 September 2018 (the “**2018 Share Option Scheme**”) and the adoption of a new share option scheme (the “**2023 Share Option Scheme**”) as a reward to eligible high-calibre employees and to attract similar high-quality personnel that are valuable to the Group.

On 24 April 2023, 48,000,000 share options under the 2018 Share Option Scheme were granted to certain Director, senior managements and employees of the Group, as disclosed in the announcement of the Company dated 24 April 2023.

EVENTS AFTER THE REPORTING PERIOD

There is no event that will have material impact on the Group from the end of the Reporting Period to the date of this report.

PROSPECTS

In view of the outbreak of the COVID-19 pandemic since early 2020, the global economy and the financial markets in Hong Kong, Japan and the People’s Republic of China (the “**PRC**”) remain uncertain. The Board considered that such significant impact on the global economy and financial markets had adversely affected the market of Chinese and Japanese artworks, specific for unpredictability in the market demand, value and conditions for artworks and development of art auction market in general. We are aspiring to diversify our business scope into the field of contemporary artworks and jewelry. The Group also seized the opportunity to accelerate the formation of its online system and online auction platform, so as to keep up with the current developing trend, integrate platforms and upgrade its technology to bring new experience of multi-scenario auction for all collectors. The development of online trading and information platform and diversifying our business scope by venturing into the field of contemporary artwork and jewelry allow the Group to expand its current business and provide more flexibility to cope with the economic uncertainty in the near future.

The Group has been growing since its establishment and during the Reporting Period. Through its successful Listing in 2018, the Group has been expanding itself as a pioneering corporate with emphasis on artworks auction, expanding from Japan to the entire Asia. At present, it has established footholds in major cities in Asia with its business expanding from Tokyo to Hong Kong and Taiwan. Moreover, in order to promptly increase its coverage in other key regions in terms of the Asian artworks and become one of the international well-known auction houses with Chinese and Japanese art auction business in the future, the Group has actively explored potential customers and consolidated its competitive strengths in order to broaden its network in the collection community and facilitate the growth of its auction business. In addition, the Group’s marketing and brand promotion activities are integral parts of its effort to gain acclaim and build its reputation among the high net worth individuals in the Asia-Pacific

region, which successfully strengthened the brand image of the Group and raised its brand awareness. Further raising the Group's brand awareness is the key to the success of its future development.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the Reporting Period.

CORPORATE GOVERNANCE

The Board has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code during the Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. After specific enquiry made by the Company, all of the Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct of the Company governing Directors' securities transactions during the Reporting Period.

AUDIT COMMITTEE

The Company has established an audit committee which comprises three independent non-executive Directors, namely, Ms. Lam Suk Ling Shirley, Mr. Chung Kwok Mo John, and Mr. Chun Chi Man. Ms. Lam Suk Ling Shirley is the chairlady of the audit committee. The audit committee of the Company has reviewed and discussed with the management of the Group on the unaudited interim condensed consolidated financial information of the Group for the Reporting Period, including the accounting principles and practices adopted by the Group, and discussed financial related matters. The audit committee has no disagreement with the accounting treatment adopted by the Company in the unaudited interim condensed consolidated financial information of the Group for the Reporting Period.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkex.com.hk and on the website of the Company at www.chuo-auction.com.hk. The interim report of the Company for the Reporting Period will be despatched to the shareholders of the Company and published on the aforementioned websites in due course in accordance with the Listing Rules.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to the shareholders of the Company, business partners and clients of the Group for their immense support and to the Group's management and staff for their dedication and commitment. I look forward to creating a successful year of 2024 with you all.

By order of the Board
Tokyo Chuo Auction Holdings Limited
東京中央拍賣控股有限公司
Ando Shokei
Chairman

Hong Kong, 28 November 2023

As at the date of this announcement, the executive Directors are Mr. Ando Shokei, Mrs. Ando Eri, Mr. Katsu Bunkai and Mr. Sun Hongyue and the independent non-executive Directors are Mr. Chung Kwok Mo John, Ms. Lam Suk Ling Shirley and Mr. Chun Chi Man.