

**TOKYO CHUO AUCTION HOLDINGS LTD:**  
**THERE WERE GOOD AND VALID REASONS**  
**FOR THIS COMPANY TO SEEK A LISTING**

Tokyo Chuo Auction Holdings Ltd () (Code: 1939, Main Board, The Stock Exchange of Hongkong Ltd) had good and valid reasons for seeking a listing on the premier equity market of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC).

The good and valid reasons were given in the Company's Global Offering Prospectus, dated September 27, 2018, found at Pages 240 and 241.

These reasons included:

- *'Our business objective is to become one of the internationally well-known auction houses with Chinese and Japanese art auction business in the future. Our Directors believe that the Listing will facilitate the implementation of our business strategies ... and will strengthen our market position and expand our market share in the industry.'*
- *'Historically, we experienced net operating cash outflow of HK\$112.3 million and net cash outflow of HK\$148.6 million for the year ended March 31, 2018. In addition, whilst we experienced positive net operating cash inflow in the past, we cannot assure that we will not experience negative net operating cash flow in the future.'*
- *'Taking into account the above and the following reasons, we consider our cash level is only sufficient for our Group's current scale of operation, (i) we did not have any unutilized banking facility as at the Latest Practicable Date (September 17, 2018) and it would be difficult for us to obtain bank financing with reasons explained in below paragraph; (ii) the total of our historical*

*costs of services, selling and distribution expenses and administrative expenses amounted to approximately HK\$107.7 million, HK\$100.3 million and HK\$109.0 million for the three years ended March 31, 2018, respectively, and our current cash level is only sufficient for current scale of operations because there is mismatch in the timing of our cash inflow from customers and cash outflow giving the fact that (a) we would normally have cash inflow in the months that an auction is held which is around Spring and Autumn every year while the selling and distribution expenses and administrative expenses would be incurred in every single month throughout the year; and (b) we are normally required to settle majority of our expenses to our suppliers prior to the auction held while our commissions would be settled in subsequent months; (iii) we had borrowings of approximately HK\$19.3 million as of July 31, 2018, which would be due in next twelve months and would be settled by our general working capital; and (iv) while we take prudent approach in purchase artworks for resale, we reserve cash for acquiring appealing artworks with high appreciation value. Therefore, our Directors consider it is necessary to carefully manage our cash resources and to maintain our existing cash on hand to support the working capital requirements of our daily operation.'*

- *'The Listing will therefore provide funds for our operation and business expansion. We have considered debt financing from banks to fund our future plans from time to time, however, as our Group is mainly engaged in provision of auction related services and does not have large amount of fixed assets, we do not have a lot of chargeable assets as securities, which makes it difficult for us to obtain banking facilities. In addition, we expect that the low interest rate for banking facilities will not persist, and thus, if we opt to fund our future plans mainly by way of obtaining banking facilities, we would be exposed to the risk of bearing higher interest rates. In addition, our Directors also take into account the fact that equity financing does not need to be repaid and attached with fixed costs while bank borrowing does, therefore, solely debt financing would not be an optimal choice to support our long-term business growth.'*

In a nutshell, the Company is somewhat hamstrung because obtaining bank financing arrangements would be difficult – by Management's own admission – if not impossible in today's market conditions, taking into consideration the Company's financial results in respect of the Financial Year, ended March 31, 2018, as well as the fact that Management has too little by way of collateral to secure any material bank loan.

### **The Global Offering Of Tokyo Chuo Auction Holdings Ltd**

Tokyo Chuo Auction Holdings Ltd made a Global Offering of 96,520,000 Shares at the Indicative Offer Price Per Share, ranging from a low of \$HK1.50 to a high of \$HK1.71.

Investors of the HKSAR have been Offered 9,652,000 Shares and International Investors – Institutions, Professionals and Well-Heeled business people – are Offered 86,868,000 Shares.

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