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SIMPLICITY HOLDING LIMITED

倩碧控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8367)

DISCLOSEABLE TRANSACTION INVOLVING ISSUE OF SHARES UNDER GENERAL MANDATE

THE ACQUISITION

The Board is pleased to announce that on 13 January 2023, the Company and the Purchaser, a wholly owned subsidiary of the Company, entered into the Agreement with the Vendor for the acquisition of 100% issued shares of the Target at the consideration of HK\$35 million to be settled in cash and by the allotment and issue of the Consideration Shares.

Completion of the Acquisition is conditional upon, among others, the Stock Exchange granting the listing of and permission to deal in the Consideration Shares.

GEM LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio under the GEM Listing Rules exceeds 5% but is under 25%, the Acquisition constitutes a discloseable transaction and is subject to the reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 13 January 2023, the Company and the Purchaser, a wholly owned subsidiary of the Company, entered into the Agreement with the Vendor for the acquisition of 100% issued shares of the Target at the consideration of HK\$35 million to be settled in cash and by the allotment and issue of the Consideration Shares.

THE AGREEMENT

Date: 13 January 2023

Parties:

1. Wong Sai Cheong as vendor;
2. Jumbo Spirit Group Limited as purchaser; and
3. the Company.

To the best of the Directors' knowledge, information and belief, and after making all reasonable enquiries, the Vendor is an Independent Third Party.

Assets to be acquired

The Company shall acquire 100% issued ordinary shares in the Target.

Consideration

The consideration is HK\$35 million, which is subject to adjustment as set out under the section headed "Profit guarantee and compensation" below.

The consideration is to be satisfied by the Purchaser as follows:

- (a) HK\$1 million has been paid prior to the date of the Agreement;
- (b) HK\$9 million in cash to be paid upon completion;
- (c) HK\$25 million by procuring the allotment and issue of the Consideration Shares by the Company to the Vendor (or his nominee) upon completion, subject to the lock up and Share Repurchase Arrangement mentioned below.

Basis of consideration

The consideration of HK\$35 million was determined after arm's length negotiations between the Purchaser and the Vendor with reference to (i) the preliminary valuation of 100% equity interest of the Target as at 31 December 2022 of approximately HK\$36.5 million prepared by an independent professional valuer; (ii) the profit guarantee provided by the Vendor under the Agreement as set out under the section headed "Profit guarantee and compensation" below and (iii) the future prospects of the business of the Target as set out under the section "REASONS FOR THE ACQUISITION" below.

Accordingly the Directors consider that the consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The valuation method used for the preliminary valuation of the Target was based on discounted cash flow using the income-based approach, which is regarded as profit forecast under Rule 19.61 of the GEM Listing Rules. Further details relating to the valuation pursuant to Rule 19.60A of the GEM Listing Rules will be provided by way of an announcement within 15 business days from the date hereof.

Profit guarantee and compensation

The Vendor guarantees to the Purchaser that the audited net profit before tax of the Target (i) for the year ending 31 March 2023 shall be no less than HK\$3.8 million and (ii) for the year ending 31 March 2024 shall be no less than HK\$5.2 million (the “**Guaranteed Profits**”). If the actual audited net profit before tax of the Target for the year ending 31 March 2023 or 31 March 2024 (the “**Actual Profits**”) shall be less than the relevant Guaranteed Profits, the Vendor shall pay compensation (the “**Compensation**”) to the Purchaser based on 3.8 times the shortfall in the Actual Profits. For the avoidance of doubt, if the Actual Profits shall be negative, it shall be deemed to be zero. The maximum amount of the Compensation shall be HK\$34.2 million.

The Vendor and the Purchaser shall procure the auditor nominated by the Purchaser to complete the audited financial statements of the Target for the year ending 31 March 2023 and 31 March 2024 respectively within 3 months after the end of the relevant period.

The Compensation (if any) shall be paid by the Vendor to the Purchaser within 7 business days after determination of the Actual Profits in the following manner:

- (a) firstly, the Vendor shall sell and the Company shall purchase a relevant number of Consideration Shares at the Issue Price and the purchase price thereof shall be set off against the Compensation payable by the Vendor to the Purchaser (“**Share Repurchase Arrangement**”); and
- (b) the balance of any Compensation (if any) shall be paid in cash.

The Consideration Shares purchased by the Company pursuant to the Share Repurchase Arrangement above shall be cancelled.

The Guaranteed Profits were determined based the following principal factors:

1. The projected revenue for the year ending 31 March 2023 was based on the latest management accounts of the Target up to 30 November 2022 and the orders on hand; and
2. The Target expects that there will be a growth of approximately 11% in revenue for the year ending 31 March 2024 in view of the resumption to normalcy in air travel and the expected rebound in demand for aircraft engine repair services, and with the gross profit margin remaining unchanged.

Conditions precedent

Completion of the Agreement shall be conditional upon and subject to:

- (a) the Company being satisfied with the results of its due diligence review of the assets, liabilities, operations and affairs of the Target;
- (b) all necessary consents and approvals required to be obtained on the part of the Vendor, the Target, the Purchaser and the Company in respect of the Agreement and the transactions contemplated thereunder having been obtained;
- (c) all necessary waiver, consent, approval, licence, authorisation, permission, order and exemption from the relevant governmental or regulatory authorities or other third parties which are necessary in connection with the Agreement and the transactions contemplated thereunder having been obtained;
- (d) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares;
- (e) the obtaining of a valuation report on the Target of not less than HK\$36.5 million from an independent professional valuer (in form and substance satisfactory to the Purchaser); and
- (f) the warranties set out in the Agreement remaining true and accurate in all material respects.

As at the date of this announcement, no conditions precedent has been fulfilled. If the above conditions have not been satisfied (or as the case may be, waived by the Company in respect of (a) and (f) only) on or before the Long Stop Date, the Agreement shall cease and determine and thereafter neither party shall have any obligations and liabilities towards each other hereunder save for any antecedent breaches of the terms hereof.

Completion

Completion shall take place within five business days after all the conditions precedent of the Agreement are satisfied (or waiver the case may be), or such other date as the Vendor and the Purchaser may agree in writing.

After completion, the Target will become a wholly-owned subsidiary of the Company and the financial results of the Target will be consolidated into the Company.

INFORMATION ON THE TARGET

The Target is a limited company incorporated in Hong Kong in 2010 and is principally engaged in providing aircraft engine stand repair and maintenance services in Hong Kong. Its major customers include airlines, aircraft engine manufacturers and aircraft engineering companies.

Set out below is the financial information of the Target extracted from its audited financial statements for the two years ended 31 March 2022 and 31 March 2021:

	Year ended 31 March 2022	Year ended 31 March 2021
	<i>HK\$</i>	<i>HK\$</i>
Profit before taxation	471,000	751,000
Profit after taxation	390,000	744,000
Net assets	1,798,000	2,020,000

CONSIDERATION SHARES AND ISSUE PRICE

The Consideration Shares will be allotted and issued at the Issue Price of HK\$0.131 each, which represents:

- (i) a discount of approximately 13.25% over the closing price of HK\$0.151 per Share as quoted on the Stock Exchange on the date of the Agreement; and
- (ii) a discount of approximately 10.88% over the average closing price of approximately HK\$0.147 per Share as quoted on the Stock Exchange for the last five consecutive trading days of the Shares immediately before the date of the Agreement.

The Issue Price was determined after arm's length negotiation between the Purchaser and Vendor with reference to the prevailing and historical market prices of the Shares. The Directors consider that the Issue Price is fair and reasonable.

The Consideration Shares represent approximately 19.88% of the total number of issued Shares as at the date of this announcement and represent approximately 16.58% of the total number of issued Shares as enlarged by the allotment and issue of Consideration Shares.

LOCK UP

The Vendor irrevocably undertake to the Company and the Purchaser that none of the Consideration Shares may be transferred, sold, the subject of any Encumbrance or otherwise disposed of, from the date of allotment and issue of the Consideration Shares. The Vendor agrees to deposit the Consideration Shares upon issuance into an escrow account approved by the Company and the Purchaser. The Vendor shall not deal with the Consideration Shares in the escrow account without the prior written approval of the Company and the Purchaser. Provided that if pursuant to the relevant profit guarantee provisions of the Agreement, the Vendor is not obliged to pay any Compensation to the Purchaser or has fully paid all Compensation to the Purchaser, the above lock up of the Consideration Shares shall be released forthwith.

THE GENERAL MANDATE

The Consideration Shares will be allotted and issued pursuant to the general mandate to allot, issue and deal with Shares granted to the Directors by a resolution of the Shareholders passed at the Company's annual general meeting held on 16 September 2022 up to 192,000,000 Shares. As at the date of this announcement, no Share has been issued pursuant to the general mandate.

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares, when issued, will rank *pari passu* in all respects with the existing Shares in issue.

REASONS FOR THE ACQUISITION

The Group is principally engaged in restaurant operations in Hong Kong.

The Target is a well established provider of aircraft engine stand repair and maintenance services in Hong Kong. Due to the COVID-19 pandemic a huge number of aircrafts were grounded worldwide. The substantial drop in demand for engine repair services has adversely affected the business of the Target for the past two years. With the easing of the various travel control measures by countries all over the world, it is expected that the business performance of the Target will regain its momentum upon rebound of the air travel industry. In addition, the Target is planning to expand into aviation related food catering services by leveraging on its connections in the aviation industry and the Group's expertise in restaurant operations.

The Board has been actively looking for business opportunities to diversify the income source of the Group. The Board considers that the Target will provide the Group with a steady stream of income with significant potential upside in light of the strong recovery in the air travel industry.

The Directors consider the Guaranteed Profits and compensation mechanism provide protection to the Company in the event that the forecasted net profit before tax fail to materialise. As such, it provides extra protection to the Group regarding the risk of the Target not sustaining its performance and growth. Furthermore, the issue of Consideration Shares in settlement of part of the consideration relieves the Company from immediate cashflow burden. The lock up and repurchase arrangement of the Consideration Shares also ensures recovery of the bulk of the Compensation payable by the Vendor.

Therefore the Directors are of the view that the terms and conditions of the Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

EFFECTS ON THE SHAREHOLDING STRUCTURE

The following table summarises the shareholding structure of the Company as at the date of this announcement and upon issue of the Consideration Shares (assuming that there is no other change in the share capital of the Company):

	As at the date of this announcement		Immediately after issue of the Consideration Shares	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Marvel Jumbo Limited	480,000,000	50.00	480,000,000	41.71
Vendor	0	0.00	190,839,695	16.58
Other public Shareholders	<u>480,000,000</u>	<u>50.00</u>	<u>480,000,000</u>	<u>41.71</u>
Total	<u>960,000,000</u>	<u>100.00</u>	<u>1,150,839,695</u>	<u>100.00</u>

GEM LISTING RULES IMPLICATIONS

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DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and phrases have the following meanings:

“Acquisition”	the acquisition of the Target pursuant to the Agreement
“Agreement”	the sale and purchase agreement dated 13 January 2023 made between the Vendor, the Purchaser and the Company relating to the sale and purchase of 100% issued shares of the Target
“Board”	the Board of directors of the Company
“business day”	a day (other than a Saturday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Company”	Simplicity Holding Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on GEM
“connected persons”	has the meaning ascribed to it under the GEM Listing Rules
“Consideration Shares”	190,839,695 new Shares to be issued by the Company at the Issue Price of HK\$0.131 per Share pursuant to the Agreement in satisfaction of part of the consideration under the Agreement
“Directors”	the directors of the Company
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Third Party”	a third party independent of the Company and its connected persons
“Issue Price”	HK\$0.131 per Share at which the Consideration Shares are to be issued pursuant to the Agreement
“Long Stop Date”	31 March 2023 or such later date as the Vendor and the Purchaser may agree
“PRC”	The People’s Republic of China
“Purchaser”	Jumbo Spirit Group Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under the GEM Listing Rules

“Target” High Smart Engineering Limited, a company incorporated in Hong Kong

“Vendor” Wong Sai Cheong

By Order of the Board of
Simplicity Holding Limited
Choi Pun Lap
Executive Director

Hong Kong, 13 January 2023

As at the date of this announcement, the executive Directors of the Company are Mr. Choi Pun Lap and Mr. Leung Wai Tai; and the independent non-executive Directors of the Company are Mr. Yeung Man Sun, Mr. Lo Cheuk Fei Jeffrey and Mr. Wong Hoyen Pegasus.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the Stock Exchange’s website at <http://www.hkexnews.hk> on the “Latest Listed Company Information” page for at least seven days from the date of its publication and posting and will be published and remains on the website of the Company at <http://www.simplicityholding.com>.

* *For identification purpose only*