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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)**

### **FURTHER SUPPLEMENTAL ANNOUNCEMENT DISCLOSEABLE TRANSACTION INVOLVING ISSUE OF SHARES UNDER GENERAL MANDATE**

References are made to the announcements of the Simplicity Holding Limited dated 13 January 2023, 19 January 2023 and 8 February 2023 (the “**Announcements**”) relating to the Acquisition. Terms used herein shall have the same meanings as defined in the Announcements unless otherwise stated.

#### **SUPPLEMENTAL AGREEMENT**

Pursuant to the supplemental agreement dated 19 January 2023 (“**Supplemental Agreement**”), amendments were made to the Agreement relating to the provisions on the valuation of the Target and the consideration of the Acquisition. Subsequent to the preliminary indicative valuation of the Target pursuant to which the Agreement was based on, the Company further reviewed the parameters adopted in the cashflow forecast for the financial year 2024. The historical operating expenses to revenue ratio of the Target for the financial year 2022 and the projected ratio for 2023 were approximately 13.7% and 14% respectively, which was calculated by dividing the total operating expenses by the total revenue of the year. However, the Company noted that the projected operating expenses to revenue ratio for the financial year 2024 up to 2027 were 12.9%, 12.6%, 12.2% and 12.2% respectively which were significantly lower than historical figures. The projected operating expenses from 2024 onwards comprised of (i) expenses which rise annually at the estimated inflation rate in Hong Kong of 1.9% as announced by the Hong Kong Government, (ii) directors’ remunerations according to their service contracts which were performance related and (iii) engine stand towing expenses which decreased significantly in 2024 and onwards. The significant drop in the expense to revenue ratio from 2024 onwards was mainly attributable to the significant decrease in engine stand towing expenses. The Target’s management explained that the projected decrease in engine stand towing expenses was based on the assumption that they could achieve savings by procuring alternative arrangement for such services. But the Company considered that such projected decrease to be unreasonable as the procurement of alternative arrangement was not yet confirmed. Therefore, the engine stand towing expenses should rise in line with the inflation rate. After

making adjustments thereof, the projected operating expenses to revenue ratio for 2024 up to 2027 became 13.8%, 13.5%, 13.1% and 13.2% respectively, which were consistent with historical figures. The fluctuations in the ratio reflected the differential increase in total revenue, the increase in general expenses according to inflation and the increase in directors' remunerations in the respective years. The valuation of the Target was then revised downward to approximately HK\$35 million. Accordingly, the Vendor and Purchaser agreed to amend the provisions relating to the valuation and consideration pursuant to the Supplemental Agreement. The Directors consider that revised valuation and consideration is fair and reasonable and in the interest of the Company and its shareholders as a whole.

### **THIRD SUPPLEMENTAL AGREEMENT**

The Board announces that on 1 March 2023, the Company, the Purchaser and the Vendor entered into a third supplemental agreement ("**3rd Supplemental Agreement**") to amend the following terms of the Agreement:

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\$4.1 million and (ii) for the year ending 31 March 2024 shall be no less than HK\$5.2 million (the "**Guaranteed Profits**").

Save as disclosed above, there is no other changes to the terms of the Agreement and all other terms and conditions of the Agreement shall remain unchanged and in full force and effect.

### **ADDITIONAL INFORMATION ON THE ACQUISITION**

#### **Basis of consideration**

The consideration of HK\$34 million was determined after arm's length negotiations between the Purchaser and the Vendor with reference to (i) the revised valuation of 100% equity interest of the Target as at 31 December 2022 of approximately HK\$35 million prepared by an independent professional valuer; (ii) the profit guarantee provided by the Vendor under the Agreement and (iii) the future prospects of the business of the Target.

After having considered (i) the principal assumptions and basis for the projected cashflow of the Target prepared by its management, (ii) the principal assumptions and basis for the valuation prepared by the valuer, (iii) the letters from Fan, Chan & Co. Limited and Vinco Financial Limited as set out in the Announcements, the Directors considered that the valuation and consideration is fair and reasonable and in the interest of the Company and its shareholders as a whole.

## **Profit guarantee and compensation**

The Guaranteed Profits were based on the projected profit before tax of the Target for the two years ending 31 March 2024, which form the same basis for the valuation. The Guaranteed Profits represented the projected profit before tax for 2023 and 2024 of approximately HK\$4.1 million and HK\$5.2 million respectively. The Directors considered that the Guaranteed Profits are fair and reasonable and in the interest of the Company and its shareholders as a whole.

The Compensation was determined based on the shortfall in the Actual Profits on a pro-rata basis and therefore the multiple of 3.8 was adopted. The maximum Compensation of HK\$34 million represented the total amount of the consideration. Accordingly the Directors considered that the Compensation is fair and reasonable and in the interest of the Company and its shareholders as a whole.

## **ADDITIONAL INFORMATION ON VALUATION**

### **Principal assumptions**

The principal assumptions adopted for the valuation are as follows:

- The unaudited management accounts of the Target as at 30 November 2022 can reasonably represent its financial position as of the valuation date.
- A director current account of the Target of approximately HK\$4.5 million will be waived.
- The forecast provided will reasonably reflect the future projection on the income-generating capacity of the Target.
- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Company operates or intends to operate has or would be officially obtained and renewable upon expiry.
- There will be sufficient supply of technical staff in the industry in which the Company operates, and the Company will retain competent management, key personnel and technical staff to support its ongoing operations and developments.
- There will be no major change in the current taxation laws in the localities in which the Company operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with.

- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Company.
- Interest rates and exchange rates in the localities for the operation of the Company will not differ materially from those presently prevailing.

### **Projected revenue**

The projected revenue of the Target for the year ending 31 March 2023 was approximately HK\$32 million and represented the sum of (i) the actual revenue recorded for the eight months ended 30 November 2022 of approximately HK\$20.5 million, (ii) the orders on hand for December 2022 and January 2023 of approximately HK\$6.2 million and (iii) the estimated aggregate revenue for February and March 2023 of approximately HK\$5.2 million based on the average monthly revenue for the eight months ended 30 November 2022 of approximately HK\$2.6 million.

The projected revenue of the Target for the year ending 31 March 2024 was approximately HK\$35.5 million which was arrived at based on principally (i) the projected demand for engine stands repair based on the estimated total number of engines input for 2024 provided by the Target's customers, (ii) the historical average prices for different types of engine stands in 2023 and a projected 5% increase thereof in 2024, and (iii) the estimated demands for different types of engine stands in 2024 remaining almost the same as expected by the Target's customers. For subsequent years, the projected revenue was arrived at based on principally (i) the projected demand for engine stands repair based on the estimated total number of engines input provided by the Target's customers, (ii) a projected 5% increase annually in the average prices for different types of engine stands, and (iii) the estimated adjustments in demands for different types of engine stands expected by the Target's customers to reflect a gradual increase in demand for repair of newer model engines and a corresponding decrease for older model engines. The projected 5% increase annually in the average price of the engine stands was based on the increase in average price from 2022 to 2023 of approximately 5%.

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

Hong Kong, 1 March 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*