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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 IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING THE ISSUE OF PROMISSORY NOTE

THE ACQUISITION

The Board is pleased to announce that on 4 August 2021 (after trading hours), the Purchaser, being a direct wholly-owned subsidiary of the Company, and the Vendor entered into the Agreement, pursuant to which, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares at the Consideration of HK\$60,000,000, which will be satisfied by the issue of the Promissory Note upon Completion.

Upon Completion, the Group will be interested in the entire issued share capital of the Target Company and the Target Company will become an indirect wholly-owned subsidiary of the Company and accordingly, the financial results of the Target Group will be consolidated into the accounts of the Company.

GEM LISTING RULES IMPLICATIONS

As the discounted cash flow method of the income approach was applied in the Valuation Report, the calculations of the value of the entire equity interest in the Target Group as set out in the Valuation Report is regarded as profit forecast under Rule 19.62 of the GEM Listing Rules. Further announcement will be made by the Company within 15 business days after publication of this announcement in compliance with Rule 19.60A and Rule 19.62 of the GEM Listing Rules.

As some of the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the Acquisition exceed 5% but all applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction for the Company and is therefore subject to the reporting and announcement requirements, but is exempt from shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

As the Completion is subject to fulfilment of certain conditions precedent set out in the Agreement and therefore may or may not proceed, Shareholders and investors are reminded to exercise caution when dealing in the Shares.

INTRODUCTION

The Board is pleased to announce that on 4 August 2021 (after trading hours), the Purchaser, being a direct wholly-owned subsidiary of the Company, and the Vendor entered into the Agreement, pursuant to which, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares at the Consideration of HK\$60,000,000, which will be satisfied by the issue of the Promissory Note upon Completion.

THE AGREEMENT

The principal terms of the Agreement are set out below:

Date

4 August 2021 (after trading hours)

Parties

- (i) the Purchaser; and
- (ii) Mr. Tao Wah Wai Calvin as the Vendor.

The Purchaser is a company incorporated in the BVI with limited liability. It is a wholly-owned subsidiary of the Company and is principally engaged in investment holding.

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

Assets to be acquired

The Sale Shares, representing the entire issued share capital of the Target Company.

Consideration

The Consideration of HK\$60,000,000 will be satisfied by issue of the Promissory Note upon Completion.

Further details of the Promissory Note are set out in the section headed "Promissory Note" below.

The Consideration was arrived at based on normal commercial terms after arm's length negotiations between the Purchaser and the Vendor and was determined with reference to among others, (i) the preliminary valuation of 100% equity interest of the Target Company of HK\$68,000,000 as at 3 August 2021 (the "**Valuation**") prepared by an independent valuer based on income-based approach (the "**Valuation Report**"); (ii) the Guaranteed Profits (as defined below) given by the Vendor; (iii) the business development and future prospects of the Target Group; and (iv) the reasons for and benefits of the Acquisition as stated under the section headed "Reasons for and benefits of the Acquisition" below.

The Consideration represents a discount of 11.8% to the Valuation.

In view of the above, the Directors consider that the Consideration is fair and reasonable, is on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

Profit guarantee and compensation

The Vendor irrevocably and unconditionally guarantees to the Purchaser that the audited profit before tax of the Target Group for the First Relevant Period and the Second Relevant Period ("**Relevant Periods**" and each a "**Relevant Period**") as shown on its audited consolidated financial statements to be prepared in accordance with HKFRS (the "**Actual Profits Before Tax**") shall not be less than the following amounts (the "**Guaranteed Profits**" and each a "**Guaranteed Profit**"):

Relevant Periods	Guaranteed Profits
First Relevant Period	HK\$5,700,000
Second Relevant Period	HK\$16,150,000

If the Actual Profits Before Tax for a Relevant Period is less than 5% or more of the Guaranteed Profits for the Relevant Period, the Vendor shall settle the Purchaser a compensation equivalent to 2.5 times the shortfall (being the difference between the Guaranteed Profit and the Actual Profits Before Tax for the respective Relevant Periods), by way of set off against the outstanding principal amount of the Promissory Note. No upward adjustment will be made on the Consideration even if each of the Actual Profits Before Tax exceeds the respective Guaranteed Profits. For the avoidance of doubt, if the Actual Profits Before Tax shall be negative, it shall be deemed to be zero.

The Purchaser shall procure an auditor to audit the consolidated financial statements of the Target Company within 3 months from the end of each Relevant Period and the Purchaser shall also issue a notice to the Vendor regarding the Actual Gross Profits for each Relevant Period.

The Guaranteed Profits were determined mainly based the following factors:

1. The Target Group targets to sell 510 units Machines during the Relevant Periods, which is estimated based on the actual monthly sales performance of the Target Group in June 2021.
2. The Target Group plans to rapidly expand the sales coverage to other parts of the PRC by setting up 26 local sales team in different provinces by the end of 2021 to establish a nation-wide sales coverage.
3. The Guaranteed Profit for the Second Relevant Period is set higher than that for the First Relevant Period. This is mainly because the Target Group expects to achieve the full-scale operation and record an increase in revenue with established nation-wide sales coverage in the second year following Completion.

Conditions precedent

Completion shall be conditional upon and subject to:

- (a) the Purchaser having obtained a due diligence report/legal opinion (in such form and substance satisfactory to the Purchaser) from a qualified PRC legal adviser appointed by the Purchaser, confirming, among other things, the Agreement and the Acquisition in respect of the PRC laws, and the confirmation in respect of the due incorporation of Kaifeng YWJ, Henan Zhengxiu and Kaifeng Zhengxiu and their operations;
- (b) the Purchaser having obtained a valuation report (in such form and substance satisfactory to the Purchaser) issued by a qualified valuer appointed by the Purchaser on the entire equity interests of the Target Group, stating, among other things, the valuation of the Target Group at HK\$68.0 million;
- (c) the Target Group having obtained all relevant licences and consent or renewals thereof in relation to its business and such licenses being valid and subsisting; for the licences which validity period will expire soon, the Target Group having submitted application for renewal/extension within the time limit stipulated under the relevant law or regulations;
- (d) the senior management of the each members of the Target Group having entered into an employment contracts (in such form and substance satisfactory to the Purchaser) to remain as the same position for a period of 2 years from the date of Completion;
- (e) the Purchaser, its agents or professional advisers being satisfied with the results of the review (in relation to legal, accounting, finance, operation or any other matters, which, in the Purchaser's opinion, are important) of the Target Group and the results of such review being satisfactory to the Purchaser;

- (f) the Purchaser being satisfied, from the date of signing the Agreement and at any time before Completion, that the representations, warranties and undertakings given under the Agreement by Vendor in respect of the Target Group remain true, accurate, not misleading or being breached in any material changes;
- (g) the Purchaser not having discovered or known that from the date of signing of the Agreement and up to Completion, there being any abnormal operations or any material adverse change in the business circumstances (including assets, financial and legal status), operations, performance or assets, or any undisclosed material potential risks in the Target Group; and
- (h) there having been no material adverse change in respect of legal, regulation, policy or other applicable regulatory requirements on the Purchaser, the Vendor and the Target Group.

As at the date of this announcement, no condition precedent has been fulfilled. If the conditions precedent have not been satisfied or waived by the Purchaser on or before the Long Stop Date, the Purchaser shall not be bound to proceed with the purchase of the Sale Shares and the Agreement (other than the survival clause(s)) shall from the Long Stop Date, become void and of no further effect and, save in respect of any antecedent breaches, all liabilities and obligations of the Parties shall cease and determine provided that such termination shall be without prejudice to any rights or remedies of the parties thereto which shall have accrued prior to such termination.

Completion

Completion shall take place on the Completion Date after all the conditions of the Agreement have been fulfilled (or waived as the case may be) or such date as the Parties may agree in writing.

Upon Completion, the Group will be interested in the entire issued share capital of the Target Company and the Target Company will become an indirect wholly-owned subsidiary of the Company and accordingly, the financial results of the Target Group will be consolidated into the accounts of the Company.

THE PROMISSORY NOTE

Set out below are the principal terms of the Promissory Note:

Issuer:	The Company
Issue Date:	Completion Date
Principal amount:	HK\$60,000,000
Holder of the Promissory Note:	the Vendor
Issue Price:	100% of the principal amount of Promissory Note to be issued
Interest:	5% per annum from the date of issue of the Promissory Note and payable monthly in arrears
Maturity:	3 years from the date of issue of the Promissory Note (the “ Maturity Date ”)
Transferability:	Subject to the prior written consent of the Company, the Promissory Notes are freely transferrable
Security:	The obligations of the Purchaser under the Promissory Note are unsecured
Early repayment:	The Company may pay to the Vendor prior to the Maturity Date all or part of outstanding principal amount (together with the outstanding accrued interests) of the Promissory Note by negotiation with the Vendor in advanced
Application for listing:	No application will be made for the listing of the Promissory Note on any stock exchange

INFORMATION OF THE TARGET GROUP

The Target Company is a company incorporated in the BVI with limited liability, which is principally engaged in investment holding.

Ivan Int'l is a limited company incorporated in Hong Kong which is directly wholly-owned by the Target Company. The principal activity of Ivan Int'l is investment holding.

Kaifeng YWJ is a company established in the PRC with limited liability and wholly-owned by Ivan Int'l. The principal activity of Kaifeng YWJ is investment holding.

Kaifeng Zhengxiu and Henan Zhengxiu, companies established in the PRC with limited liability and wholly-owned by Kaifeng YWJ, are the major operating subsidiaries of the Target Group.

The Target Group through Kaifeng Zhengxiu and Henan Zhengxiu are principally engaged in the sales of drug vending machines and related services. Kaifeng Zhengxiu has been authorized to be responsible for the promotion and selling automatic drug vending machines (the “**Machines**”) in the PRC, namely the “二十四小時未來藥房藥機項目” (24 Hour Future Pharmacies and Drug Machines Project*) (the “**Project**”) for a term of 10 years for a pharmaceutical group (the “**Pharmaceutical Group**”) in the PRC. The Pharmaceutical Group is principally engaged in the production and sales of proprietary Chinese medicine, chemical pharmaceuticals, and biopharmaceuticals in the PRC and has over 100 types of medicine products. The Target Group procures the Machines from supplier in the PRC.

Unlike traditional medical services providers, the Machines are not only vending medicines or healthcare products but also provide integrated digital medical consultation and diagnosis services to satisfy end-users' diversified medical needs for 24 hours a day, 7 days a week. The Target Group would work closely with the clients, doctors and pharmaceutical manufactures to customize the services and product mix for the Machines. In addition, the Target Group offers full-service operations to the clients including maintenance, repair, product procurement directly from pharmaceutical manufactures at competitive prices and regular product filling.

The Target Group derives revenue from sales of Machines and sharing of a certain percentage of the sales of medicines. The major customer base of the Target Group comprises distributors for the Machines. Since the commencement of business in May 2021 and up to 30 June 2021, the Target Group has sold 30 Machines for an aggregate amount of RMB3 million (equivalent to approximately HK\$3.6 million).

As Kaifeng Zhengxiu and Henan Zhengxiu, being the major operating subsidiaries of the Target Group, was established in March 2021 and 30 June 2021, there is no financial information of Kaifeng Zhengxiu and Henan Zhengxiu for two financial years available for disclosure in the announcement. According to the unaudited financial information of Kaifeng Zhengxiu, it recorded net assets of approximately RMB5.8 million as at 30 June 2021.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company and its subsidiaries are principally engaged in restaurant operations in Hong Kong.

The Company has been actively seeking new business opportunities from time to time in order to diversify its business and enhance the long-term growth potential of the Company and its Shareholder's Value.

The COVID-19 outbreak has led to the suspension of outpatient clinic services, resulting in a decline in the number of inpatients, which has further promoted the shift of prescription drug sales out of hospitals. According to the research from Deloitte published in 2020, from 2019 to 2023, the retail prescription drug market is estimated to maintain a CAGR of 8.5% mainly due to the expansion of prescription outflow, the development of internet hospitals and deregulation of online pharma sales. Under this trend, many pharma companies started to explore innovative distributorship models instead of traditionally in-hospital business focused.

The Target Group offers an innovative medical care and healthcare to customers which providing them with great conveniences as to where and when to have diagnosis service and purchase of medicines. Through installing and operating the Machines, and providing the relevant ancillary services and facilities in the PRC, the Target Group plans to achieve a one-stop integrated medical care and healthcare ecology, shares the burden in meeting the increasing medical care demands with the domestic hospitals and pharmacies, and improve the national medical care environment. It has been one of the Group's strategies to develop its business by introducing attractive investment opportunity. The Directors consider that the Acquisition represents an opportunities of the Group to tap the market potential of the medical industry in the PRC.

In addition, the Guaranteed Profits is offered by the Vendor which demonstrated the Vendor's confidence on the prospects of the Target Group and is in favour of the Company. The Directors consider the Guaranteed Profits and compensation mechanism provide protection to the Company given the short track record period of the Target Group in the event that the forecasted profit before tax fail to materialise after Completion. The Directors also consider that the Guaranteed Profits provide short-term protection for the Company against the risk of acquiring the Target Group with short track record period. As such, it provides extra protection to the Group regarding the risk of the Target Group not sustaining its initial performance and growth.

Furthermore, as the Consideration is satisfied through the issue of the Promissory Note, therefore there is no immediate cashflow burden of the Group.

Base on the foregoing, the Directors consider that the terms of the Acquisition are fair and reasonable, on normal commercial terms and the Acquisition is in the interests of the Company and the Shareholders as a whole.

GEM LISTING RULES IMPLICATIONS

As the discounted cash flow method of the income approach was applied in the Valuation Report, the calculations of the value of the entire equity interest in the Target Group as set out in the Valuation Report is regarded as profit forecast under Rule 19.62 of the GEM Listing Rules. Further announcement will be made by the Company within 15 business days after publication of this announcement in compliance with Rule 19.60A and Rule 19.62 of the GEM Listing Rules.

As some of the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the Acquisition exceed 5% but all applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction for the Company and is therefore subject to the reporting and announcement requirements, but is exempt from shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

DEFINITIONS

In this announcement, unless the context specifies otherwise, the following defined expressions have the following meanings:

“Acquisition”	the proposed acquisition of the Sale Shares pursuant to the terms and conditions of the Agreement
“Agreement”	the sale and purchase agreement dated 4 August 2021 entered into between the Purchaser and the Vendor in relation to the Acquisition
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“BVI”	the British Virgin Islands
“Company”	Simplicity Holding Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the GEM (stock code: 8367)
“Completion”	completion of the sale and purchase of the Sale Shares in accordance with the terms and conditions of the Agreement
“Completion Date”	the fifth Business Day after the date of fulfillment (or waiver) of all the conditions precedent as set out in the Agreement or such other date (being a Business Day) as the Purchaser and the Vendor may mutually agree in writing

“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Consideration”	the consideration for the Acquisition, being HK\$60,000,000
“Director(s)”	the director(s) of the Company
“First Relevant Period”	financial year ending 31 December 2021
“GEM”	the GEM of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Henan Zhengxiu”	河南正修福來醫藥科技管理有限公司 (Henan Zhengxiu Fulai Pharmaceutical Technology Management Co., Ltd.*), a company established in the PRC with limited liability and wholly-owned by Kaifeng YWJ
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company and any of its connected persons (having the meaning ascribed to it under the GEM Listing Rules)
“Ivan Int’l”	Ivan International Biology Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Target Company
“Kaifeng YWJ”	開封伊萬金生物科技有限公司 (Kaifeng Yiwanjin Biotechnology Co., Ltd.*), a company established in the PRC with limited liability and wholly-owned by Ivan Int’l
“Kaifeng Zhengxiu”	開封正修福來醫藥科技有限公司 (Kaifeng Zhengxiu Fulai Pharmaceutical Technology Co., Ltd.*), a company established in the PRC with limited liability and wholly-owned by Kaifeng YWJ
“Long Stop Date”	31 August 2021 or such later date as the Purchaser and the Vendor may agree in writing

“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Promissory Note”	the promissory note in the principal amount of HK\$60,000,000 to be issued by the Company in favour of the Vendor as the Consideration
“Purchaser”	Jumbo Spirit Group Limited, a company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of the Company
“Sale Shares”	50,000 ordinary shares of the Target Company, representing the entire issued share capital of the Target Company
“Second Relevant Period”	financial year ending 31 December 2022
“Share(s)”	ordinary share(s) with par value of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Lucky State Investment Holdings Limited, a company incorporated in the BVI with limited liability, which is wholly-owned by the Vendor immediately prior to Completion
“Target Group”	the Target Company and its subsidiaries
“Vendor”	Mr. Tao Wah Wai Calvin
“%”	per cent.

By Order of the Board
Simplicity Holding Limited
Wong Suet Hing
Chairman and Executive Director

Hong Kong, 4 August 2021

As at the date of this announcement, the executive Directors of the Company are Ms. Wong Suet Hing, Ms. Wong Sau Ting Peony and Mr. Wong Chi Chiu Henry; and the independent non-executive Directors of the Company are Mrs. Cheung Lau Lai Yin Becky, Mr. Yu Ronald Patrick Lup Man and Mr. Lo Cheuk Fei Jeffrey.

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 GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” 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*