



麻孫樂
Marsino



倩碧控股有限公司 Simplicity Holding Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 8367

THIRD QUARTERLY REPORT 2018



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*This report, for which the directors (the “**Directors**”) of Simplicity Holding Limited (the “**Company**”) and together with its subsidiaries, the “**Group**” or “**We**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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 report 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 report misleading.



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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

THREE MONTHS AND NINE MONTHS ENDED 31 DECEMBER 2018

The unaudited condensed consolidated results of the Group for the three months and nine months ended 31 December 2018, together with the unaudited comparative figures for the corresponding period in 2017, are as follows:

		Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	Notes	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Revenue	4	37,352	34,478	110,515	106,173
Other Income	5	157	181	425	536
Other losses		(138)	(166)	(138)	(166)
Raw materials and consumables used		(10,672)	(9,340)	(31,457)	(28,657)
Staff costs		(15,884)	(12,769)	(44,325)	(36,843)
Depreciation		(2,491)	(1,935)	(6,673)	(5,550)
Rental and related expenses		(7,578)	(6,165)	(21,095)	(17,609)
Utilities expenses		(1,888)	(1,769)	(5,667)	(5,674)
Listing expenses		–	(461)	–	(8,032)
Other expenses		(2,801)	(2,000)	(8,680)	(5,459)
Finance costs	6	(117)	(77)	(336)	(234)
Loss before tax	7	(4,060)	(23)	(7,431)	(1,515)
Income tax expense	8	(188)	(411)	(957)	(1,197)
Loss and total comprehensive expense for the period		<u>(4,248)</u>	<u>(434)</u>	<u>(8,388)</u>	<u>(2,712)</u>
Loss (profit) and total comprehensive (expense) income for the period attributable to:					
– owners of the Company		(4,147)	(515)	(8,509)	(3,552)
– non-controlling interests		(101)	81	121	840
		<u>(4,248)</u>	<u>(434)</u>	<u>(8,388)</u>	<u>(2,712)</u>
Loss per share					
Basic (HK cents)	10	<u>(0.52)</u>	<u>(0.09)</u>	<u>(1.06)</u>	<u>(0.62)</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NINE MONTHS ENDED 31 DECEMBER 2018

	Attributable to owners of the Company				Non-controlling interests	Total equity	
	Share capital	Share premium	Other reserves	Accumulated profits			Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
As at 31 March 2017 (Audited)	8	3,000	24,819	13,605	41,432	2,161	43,593
(Loss) profit and total comprehensive (expense) income for the period	-	-	-	(3,552)	(3,552)	840	(2,712)
Issue of shares of the Company	-	5,000	-	-	5,000	-	5,000
As at 31 December 2017 (Unaudited)	<u>8</u>	<u>8,000</u>	<u>24,819</u>	<u>10,053</u>	<u>42,880</u>	<u>3,001</u>	<u>45,881</u>
As at 31 March 2018 (Audited)	8,000	81,662	(8,482)	1,442	82,622	949	83,571
(Loss) profit and total comprehensive (expense) income for the period	-	-	-	(8,509)	(8,509)	121	(8,388)
Acquisition of additional interests in subsidiaries	-	-	(68)	-	(68)	(282)	(350)
Acquisition of interest of a subsidiary	-	-	(313)	-	(313)	-	(313)
As at 31 December 2018 (Unaudited)	<u>8,000</u>	<u>81,662</u>	<u>(8,863)</u>	<u>(7,067)</u>	<u>73,732</u>	<u>788</u>	<u>74,520</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 of the Cayman Islands on 27 January 2017 and its shares were listed on GEM of the Stock Exchange (the "**Listing**") on 26 February 2018 (the "**Listing Date**"). The addresses of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Unit 13, 8/F, Vanta Industrial Centre, 21-33 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong. Its immediate holding company is Marvel Jumbo Limited ("**MJL**"), a private limited company incorporated in the British Virgin Islands ("**BVI**") with limited liability. MJL is 31% owned by Ms. Wong Suet Hing ("**Ms. SH Wong**"), 31% owned by Ms. Chow Lai Fan ("**Ms. LF Chow**"), sister-in-law of Ms. SH Wong, 18.7% owned by Ms. Wong Sau Ting Peony ("**Ms. ST Wong**"), daughter of Ms. SH Wong, 15% owned by Ms. Wong Suet Ching ("**Ms. SC Wong**"), sister of Ms. SH Wong, and 4.3% owned by Mr. Ma Sui Hong ("**Mr. SH Ma**"), the son of Ms. Wong Shuet Ying ("**Ms. SY Wong**"), sister of Ms. SH Wong.

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

2. BASIS OF PRESENTATION

Before the reorganisation of the Group in preparation for the Listing (the "**Reorganisation**"), all the companies comprising the Group were controlled by Foodies Group Limited ("**FGL**"), Access Gear Investment Limited ("**AGIL**"), Jumbo Spirit Group Limited ("**JSGL**") and Golden Legend Investment Limited ("**GLIL**"). GLIL is a company incorporated in the BVI and not forming part of the Group. FGL, AGIL, JSGL and GLIL were 95.7% owned by (i) Ms. SH Wong; (ii) Ms. ST Wong; (iii) Ms. SC Wong; and (iv) Ms. LF Chow (collectively known as "**Controlling Shareholders**"). They are acting in concert and owned the family business through their interests held in the companies now comprising the Group.

Remaining 4.3% interests of FGL, AGIL, JSGL and GLIL is owned by Ms. SY Wong. From December 2016 to February 2017, Ms. SY Wong transferred her equity interest of these entities to Mr. SH Ma. Both Ms. SY Wong and Mr. SH Ma are considered as non-controlling shareholders of the companies now comprising the Group before the completion of Reorganisation. Pursuant to the Reorganisation, the Company has become the holding company of the companies now comprising the Group on 29 January 2018.

Accordingly, for the purpose of preparing the unaudited condensed consolidated financial statements of the Group, the Company has been considered as the holding company of the companies now comprising the Group throughout the nine months ended 31 December 2018 presented. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity, accordingly, the unaudited condensed consolidated financial statements have been prepared as if the Company had always been the holding company of the Group.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PRESENTATION *(Continued)*

The unaudited condensed consolidated financial statements have been prepared under the principles of merger accounting in accordance with the Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA for the nine months ended 31 December 2017 and 2018. The unaudited condensed consolidated statements of profit or loss and other comprehensive income and the unaudited condensed consolidated statements of changes in equity for the period presented, which include the results and changes in equity of the companies comprising the Group as if the current group structure had been in existence throughout the period.

This unaudited condensed consolidated financial statements are presented in Hong Kong Dollars (“**HK\$**”), which is also the functional currency of the Company.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

The unaudited condensed consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”) and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The unaudited condensed consolidated financial statements have been prepared under the historical cost convention.

The preparation of unaudited condensed consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

- (a) The following new and amended standards have been adopted by the Group for the first time for the financial period beginning on or after 1 January 2018:

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers and the Related Amendments</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Amendments to HKAS 28	<i>As part of the Annual Improvements to HKFRSs 2014-2016 Cycle</i>

The adoption of the above HKFRSs, except for HKFRS 9 and HKFRS 15, did not have any significant financial impacts on the unaudited condensed consolidated financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRS 9 “Financial Instruments”

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 “Financial Instruments: Recognition and Measurement”.

Based on the Group’s financial instruments and risk management policies as at 31 December 2018, the Directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

All financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the Directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised cost and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment performed by the Directors of the Company, the application of the expected credit loss model of HKFRS 9 will not have material impact on the opening accumulated profits of the Group at 1 April 2018.

HKFRS 15 “Revenue from Contracts with Customers”

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Directors of the Company anticipate that the application of HKFRS 15 in the current period may result in more disclosures, however, the Directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in these unaudited condensed financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. REVENUE

Revenue represents the fair value of amounts received or receivable for goods sold and services rendered by the Group during the period.

Information reported to the management of the Group, being the chief operating decision maker (“**CODM**”), for the purposes of resource allocation and assessment of segment performance focuses on styles of cuisine serving by the Group’s restaurants to the customers.

Specifically, the Group’s reportable segments under HKFRS 8 “Operating Segments” are as follows:

1. Chinese cuisine – Operations of Chinese cuisine restaurants under the brand of “Marsino”
2. Western cuisine – Operations of Western cuisine restaurants under the brand of “La Dolce”
3. Thai cuisine – Operations of Thai cuisine restaurants under the brand of “Grand Avenue”
4. Japanese cuisine – Operations of Japanese cuisine restaurants under the brand of “Beefst”
5. Malaysian cuisine – Operations of Malaysian cuisine restaurants under the brand of “HaHa Prawn Mee” and “Baba Nyonya”

No operating segments have been aggregated in arriving at the reportable segments of the Group.

The following is an analysis of the Group’s revenue by operating and reportable segment:

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Chinese cuisine	12,011	13,150	33,894	43,544
Western cuisine	4,916	6,979	15,084	25,148
Thai cuisine	14,704	14,349	47,892	37,481
Japanese cuisine	2,103	–	5,867	–
Malaysian cuisine	3,618	–	7,778	–
	<u>37,352</u>	<u>34,478</u>	<u>110,515</u>	<u>106,173</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. OTHER INCOME

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Other income				
Service management income	–	114	–	324
Promotion income	18	41	80	124
Bank interest income	111	–	263	–
Others	28	26	82	70
	<u>157</u>	<u>181</u>	<u>425</u>	<u>536</u>

6. FINANCE COSTS

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interests on bank borrowings	<u>117</u>	<u>77</u>	<u>336</u>	<u>234</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. LOSS BEFORE TAX

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Loss before tax has been arrived at after charging:				
Staff costs (including director's emoluments):				
Salaries and other benefits	15,197	12,242	42,419	35,286
Contributions to retirement benefit scheme	687	527	1,906	1,557
Auditor's remuneration	293	180	996	520
Amortisation of intangible asset (included in other expenses)	17	–	51	11
Operating lease payments in respect of rented premises:				
–minimum lease payments	6,183	4,861	17,114	13,411
–contingent rentals (<i>Note</i>)	114	217	408	1,168

Note: The operating lease rentals for certain restaurants are determined as the higher of a fixed rental or a predetermined percentage on revenue of respective restaurants pursuant to the terms and conditions that are set out in the respective rental agreements.

8. INCOME TAX EXPENSE

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

For the nine months ended 31 December 2018, Hong Kong Profits Tax is calculated in accordance with the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at 16.5% on the estimated assessable profits.

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the nine months ended 31 December 2018.

9. DIVIDENDS

The board of Directors (the “**Board**”) does not recommend any payment of dividend in respect of the nine months ended 31 December 2018 (2017: Nil).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. LOSS PER SHARE

The calculation of the basic loss per share (2017: basis loss per share) attributable to owners of the Company is based on the following data:

Losses

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	(4,147)	(515)	(8,509)	(3,552)

Number of shares

	31 December 2018 '000	31 December 2017 '000	31 December 2018 '000	31 December 2017 '000
Weighted average number of ordinary shares for the purpose of basic loss per share	800,000	576,781	800,000	574,054

The number of ordinary shares for the purpose of calculating basic loss per share has been determined on the assumption that the Reorganisation and the capitalisation issue of 599,980,000 ordinary shares of the Company on 26 February 2018 as if it had been effective on 1 April 2016.

No diluted loss per share for the periods was presented as there were no potential ordinary shares in issue during the periods.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are a casual dining full service restaurant operator under 6 brands, namely “Marsino”, “La Dolce”, “Grand Avenue”, “Beefst”, “HaHa Prawn Mee” and “Baba Nyonya”.

“Marsino” is a Chinese noodle specialist, “La Dolce” offers western cuisine, “Grand Avenue” offers Thai cuisine, “Beefst” offers Japanese ramen while “HaHa Prawn Mee” and “Baba Nyonya” offers Malaysian cuisine. Each of “Marsino”, “La Dolce”, “Grand Avenue”, “HaHa Prawn Mee” and “Baba Nyonya” are founded and operated by our Group, while “Beefst” is a franchise brand and we obtained the franchise right from the franchisor in Japan in November 2017.

In November 2018, we have opened a rebranded “Marsino” restaurant in Chai Wan and this rebranding strategy has increased the average spending per customer for “Marsino” due to redesign of restaurant menu which provides more variety of choices to our customers. The popular items are retained in the menu while unpopular items are gone. In addition, the menu has injected new elements such as Taiwanese-style noodles which have received many positive comments from our customers.

As at the date of this report, we operated 5 “Marsino” restaurants, 4 “Grand Avenue” restaurants, 1 “Baba Nyonya” restaurant, 2 “La Dolce” restaurants, 2 “Beefst” restaurants and 2 “HaHa Prawn Mee” restaurants and all of our restaurants are situated across Hong Kong, Kowloon and the New Territories.

“Marsino” had recorded revenue of approximately HK\$33.9 million during the nine months ended 31 December 2018, which is equivalent to 30.7% of our total revenue. As compared to the last corresponding period, “Marsino” has experienced a decrease in revenue by 22.2%.

“Grand Avenue” had recorded revenue of approximately HK\$47.9 million during the nine months ended 31 December 2018, which is equivalent to 43.3% of our total revenue. As compared to the last corresponding period, “Grand Avenue” has experienced an increase in revenue by 27.8%.

“La Dolce” had recorded revenue of approximately HK\$15.1 million during the nine months ended 31 December 2018, which is equivalent to 13.6% of our total revenue. As compared to the last corresponding period, “La Dolce” has experienced a decrease in revenue by 40.0%.



MANAGEMENT DISCUSSION AND ANALYSIS

“Beefst” had recorded revenue of approximately HK\$5.9 million during the nine months ended 31 December 2018, which is equivalent to 5.3% of our total revenue. As “Beefst” was newly started in May 2018, there was no corresponding period in 2017.

“HaHa Prawn Mee” had recorded revenue of approximately HK\$5.5 million during the nine months ended 31 December 2018, which is equivalent to 4.9% of our total revenue. As “HaHa Prawn Mee” was newly started in May 2018, there was no corresponding period in 2017.

“Baba Nyonya” had recorded revenue of approximately HK\$2.3 million during the nine months ended 31 December 2018, which is equivalent to 2.1% of our total revenue. As “Baba Nyonya” was newly started in August 2018, there was no corresponding period in 2017.

In addition to the above restaurants, our group also owns and operates a central kitchen which supplies raw materials and consumables to our restaurants. We established our central kitchen as early as in 2007, and then we moved to the existing premises due to expansion. Our management believes that our central kitchen can continuously improve the efficiency of our operation.

FUTURE PROSPECTS

The food and beverage sector is characterised by low entry barrier, high risk, high business cost primarily in rental, labour and materials and churn of concepts. Our success is heavily dependent on the food quality, cost of operating restaurants and economic conditions of Hong Kong.

In order to improve the overall business of the Group, we will focus on the following business strategies:

1. Expand the network of our existing brands – We opened a rebranded “Marsino” in Chai Wan in November 2018, and we will continue to explore opportunities to develop our brands. In addition to that, we have received various tenancy offers from different landlords from time to time and we will make assessment on each location to determine whether we should take the offers. We believe that by leveraging our core competencies to further expand the network of our existing brands which could generate additional profits to us with relatively lower risk taken as compared to the risk of developing a new brand.



MANAGEMENT DISCUSSION AND ANALYSIS

2. Rebranding – To give a refreshing perception to the customers and articulating our differentiation against competitors, it is necessary to rebrand our existing brands by providing new looks, new logos and new concepts to them. Rebranding can rejuvenate our brands so it can expand our customer base to appeal the younger customers. The restaurant menu was redesigned after rebranding to introduce a variety of new food and drink items which provides more choices to our customers. The first rebranded “Marsino” was opened at Chai Wan in November 2018 and we will continue to explore new opportunities to pursue this rebranding strategy.
3. Brand switching – Some brands opened in some geographic areas may not perform at a satisfactory level, but by switching to another brand it could become profitable. Our restaurants in Ma On Shan which were used to be operated under two brand names called “Beefst” and “HaHa Prawn Mee” but due to their performance is below our expectation therefore we will change the brand to “Baba Nyonya” in March 2019 as we believe that the price range offered by “Baba Nyonya” is more affordable in the neighborhood of Ma On Shan.
4. Closing down non-profit making restaurants – The financial performance of Shatin “La Dolce” and Tsuen Wan “Grand Avenue” is below our expectation due to decrease in the number of visitors and spending of customers in those districts, as well as increased competition. Given the adverse impact of their financial performance on the Group’s overall financial performance, the Directors are of the view that it will be the best interest of the Group to close down these two restaurants upon the expiration of their leases which will be in February 2019 and in March 2019 respectively, and we will divert our existing resources to the Group’s other restaurants.



MANAGEMENT DISCUSSION AND ANALYSIS

5. Improvement of IT systems – a new HR mobile app was introduced to our employees who can apply different types of leave or view their leave balances via this app. This new technology could reduce the time for approval of leave applications as well as saving the papers for filling up the leave application forms. Moreover, we have engaged a system developer to upgrade our ERP system which can integrate procurement, supply chain management, inventory management, sales management, POS data and finance functions altogether at a centralised location for increased collaboration and more streamlined completion of tasks. This complete visibility provides more coherent workflows and allows inter-departmental processes to be easily tracked with maximum efficiency.
6. Expand our central kitchen to increase our storage facilities and house new food processing equipment and fixtures to enhance the processing capacity of semi-processed food products supplied to our restaurants as we believe that our central kitchen at its current scale would not be able to support our planned new restaurants.

Our ongoing expansion and enhancement plans will improve our market share while we will continue to refine our business strategy to cope with the continuing challenges. We will also proactively seek potential business opportunities that will broaden our sources of revenue and enhance value to the shareholders.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the nine months ended 31 December 2018, the Group recorded revenue of approximately HK\$110.5 million (nine months ended 31 December 2017: approximately HK\$106.2 million), representing an increase 4.1% compared with the same period of the previous financial year. The increase in revenue was primarily attributed to the commencement of the businesses of six new restaurants, in which two of them were opened at Ma On Shan (“Beefst”, “HaHa Prawn Mee”), three of them were opened at Mongkok (“Beefst”, “HaHa Prawn Mee” and “Baba Nyonya”) and one was opened at Chai Wan (“Marsino”).

Raw materials and consumables used

The raw materials and consumables used mainly represents the costs of food ingredients and beverages for the operation of the Group’s restaurants and central kitchen. The major food ingredients purchased by the Group include, but are not limited to, meat, seafood, frozen food, vegetables and beverages. Raw materials and consumables used is one of the major components of the Group’s operating expenses which amounted to approximately HK\$28.7 million and HK\$31.5 million for each of the nine months ended 30 December 2017 and 2018, respectively, representing approximately 27.0% and 28.5% of the Group’s total revenue for the corresponding periods. Such increase was mainly due to the increase in the cost of food ingredients as well as we need to reserve more food ingredients for the preparation of the opening of our six new restaurants. To reduce the food cost, we will continue to monitor and control our food cost and will implement key measures to control the food preparation process in order to reduce the material loss. In addition, the continued use of the Group’s central kitchen will help to reduce the cost associated with food processing.

Staff costs

Staff costs was approximately HK\$44.3 million for the nine months ended 31 December 2018, representing an increase of approximately 20.3% as compared to approximately HK\$36.8 million for the nine months ended 31 December 2017. Such increase was mainly due to increase in headcount to cope with opening of new restaurants during the period.



MANAGEMENT DISCUSSION AND ANALYSIS

Other expenses

The Group's other expenses increased by approximately 59.0% from approximately HK\$5.5 million for the nine months ended 31 December 2017 to approximately HK\$8.7 million for the nine months ended 31 December 2018. Such increase was mainly due to the increase in legal and professional fees incurred after the Listing include services of compliance adviser and share registrars, fees to expand the storage capacity of the central kitchen, audit fees, royalty expenses paid to the franchisor in Japan for using their franchise right to operate "Beefst" restaurants in Hong Kong and other operating expenses associated with the opening of the six new restaurants during the period.

Listing expenses

There was no listing expense incurred during the period as compared to approximately HK\$8.0 million for the nine months ended 31 December 2017.

Loss attributable to owners of the Company

For the nine months ended 31 December 2018, the Group recorded a loss attributable to owners of the Company of approximately HK\$8.5 million, as compared to loss of approximately HK\$3.6 million for the nine months ended 31 December 2017. The loss for the nine months ended 31 December 2018 was mainly attributable to the increase in raw materials and consumables used, mainly food costs, from approximately 27.0% to 28.5% of our revenue; increase in staff costs of approximately HK\$7.5 million resulting from increase in the number of restaurants being operated by the Group; and increase in rental and related expenses and other operating expenses, mainly attributable to the start-up operation costs for new restaurants opened during the period.

Dividend

The Board does not recommend any payment of dividend for the nine months ended 31 December 2018 (2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM THE IPO

The Company's shares were listed on the GEM of the Stock Exchange on 26 February 2018. A total of 200,000,000 new shares with nominal value of HK\$0.01 each of the Company were issued at HK\$0.275 per share for a total of approximately HK\$55.0 million (the "IPO"). The net proceeds raised by the Company from the IPO were approximately HK\$32.6 million (the "IPO Proceeds") and the use of IPO Proceeds from the Listing Date to 31 December 2018 is set forth below:

	Planned use of IPO Proceeds up to 31 March 2019 <i>HK\$'000</i>	Utilised IPO Proceeds up to 31 December 2018 <i>HK\$'000</i>	Unutilised IPO Proceeds up to 31 December 2018 <i>HK\$'000</i>
Opening of one new Marsino Restaurant	4,400	4,400	–
Opening of one new Grand Avenue Restaurant	4,400	–	4,400
Opening of three new Japanese ramen restaurants	13,125	9,966	3,159
Expanding central kitchen storage facilities	3,500	1,149	2,351
Upgrading computer system	1,300	877	423
Implement marketing and promotional activities	1,000	344	656
General working capital	500	500	–
	<u>28,225</u>	<u>17,236</u>	<u>10,989</u>

The business objectives as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. The use of proceeds was applied in accordance with the actual development of the market.

As at 31 December 2018, approximately HK\$17.2 million out of the net proceeds from the Listing had been used. The unused net proceeds were deposited in licenced banks in Hong Kong.



MANAGEMENT DISCUSSION AND ANALYSIS

It was expected that the Group would use approximately HK\$4.4 million of the net proceeds to open a new Grand Avenue restaurant on or before 30 September 2018. Although the Group had made attempts to identify suitable locations, but unfortunately it could not find any appropriate locations where we think fit.

The Group intends to apply the net proceeds in the manner as stated in the Prospectus. However, the Directors will constantly evaluate the Group's business objectives and may change or modify the Group's plans against the changing market condition to attain sustainable business growth of the Group.

FOREIGN CURRENCY EXPOSURE

Significant transactions of the Group are denominated in Hong Kong dollars and the Group is not exposed to significant foreign exchange exposure.

CAPITAL COMMITMENTS

As at 31 December 2018, the Group's outstanding capital commitments were approximately HK\$0.06 million which were mainly made up of contracted/authorised commitments in respect of the acquisition of fixed assets raised from the newly opened restaurants during the period.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the nine months ended 31 December 2018 and up to the date of this report, there has been no purchase, sale or redemption of any Company's listed securities by the Company or any of its subsidiaries.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE OF OUR COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the date of this report, the interests and short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the ordinary shares of the Company

Name of Directors	Capacity/nature of interest	Number of shares	Approximate percentage of issued share capital of the Company
Ms. SH Wong	Interest in controlled corporation (<i>Note 1</i>)	540,000,000	67.5%
Ms. ST Wong	Interest in controlled corporation (<i>Note 2</i>)	540,000,000	67.5%
Mr. Wong Muk Fai Woody ("Mr. MF Wong")	Interest of spouse (<i>Note 3</i>)	540,000,000	67.5%
Mr. SH Ma	Interest in controlled corporation (<i>Note 4</i>)	540,000,000	67.5%

OTHER INFORMATION

Notes:

1. Ms. SH Wong beneficially owns 31.0% equity interest in MJL. Therefore, Ms. SH Wong is deemed to be interested in 540,000,000 shares held by MJL.
2. Ms. ST Wong beneficially owns 18.7% equity interest in MJL. Therefore, Ms. ST Wong is deemed to be interested in 540,000,000 shares held by MJL.
3. Mr. MF Wong is the spouse of Ms. LF Chow, who beneficially owns 31.0% equity interest in MJL. Therefore, Mr. MF Wong is deemed to be interested in 540,000,000 shares held by MJL.
4. Mr. SH Ma beneficially owns 4.3% equity interest in MJL. Therefore, Ms. SH Ma is deemed to be interested in 540,000,000 shares held by MJL.

Long positions in the ordinary shares of associated corporation

Name of Directors	Name of associated corporation	Nature of interest	Number of shares held	Percentage of shareholding in the associated corporation
Ms. SH Wong	MJL	Beneficial interest	620	31.0%
Ms. ST Wong	MJL	Beneficial interest	374	18.7%
Mr. SH Ma	MJL	Beneficial interest	86	4.3%
Mr. MF Wong (<i>Note</i>)	MJL	Interest of spouse	620	31.0%

Note: By virtue of being the spouse of Ms. LF Chow, Mr. MF Wong is deemed to be interested in Ms. LF Chow's shareholding in MJL.

Save as disclosed above, as at 31 December 2018, none of the Directors had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

OTHER INFORMATION

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2018, so far as it is known to the Directors, the following persons, other than the Directors or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or which was required pursuant to Section 336 of the SFO to be recorded in the register of the Company or, who was interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in the ordinary shares of the Company

Name of Shareholder	Nature of interest	Number of Shares (Note 1)	Approximately percentage of shareholding
MJL	Beneficial interest (Note 1)	540,000,000	67.50%
Charm Dragon Investments Limited	Beneficial interest	60,000,000	7.50%
Mr. Cheung Wai Yin Wilson	Interest in controlled corporation (Note 2)	60,000,000	7.50%
Ms. Lam Ka Wai	Interest of spouse (Note 2)	60,000,000	7.50%

Notes:

- (1) MJL is owned as to (i) 31.0% by Ms. SH Wong; (ii) 31.0% by Ms. LF Chow; (iii) 18.7% by Ms. ST Wong; (iv) 15.0% by Ms. SC Wong; and (v) 4.3% by Mr. SH Ma.
- (2) Charm Dragon Investments Limited is 100% owned by Mr. Cheung Wai Yin Wilson, as such, he is deemed under the SFO to be interested in all the shares in which Charm Dragon Investments Limited is interested. By virtue of being the spouse of Mr. Cheung Wai Yin Wilson, Ms. Lam Ka Wai is deemed to be interested in all the shares in which Mr. Cheung Wai Yin Wilson is interested pursuant to SFO.



OTHER INFORMATION

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any interests or short positions owned by any persons (other than the Directors of the Company) in the shares or underlying shares of the Company which were required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No director or a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the period.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the nine months ended 31 December 2018, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

INTERESTS OF THE COMPLIANCE ADVISER

The Company has changed the compliance adviser from Vinco Capital Limited to Dakin Capital Limited ("**Dakin Capital**") due to the consideration of fee levels, effective on 15 January 2019. As informed by Dakin Capital, neither Dakin Capital nor any of its directors or employees or associates, has or may have, any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities), which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules, except for the compliance adviser agreement entered into between the Company and Dakin Capital dated 15 January 2019.



OTHER INFORMATION

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings.

Having made specific enquiries to all the Directors and all the Directors had confirmed they have complied with the required standard of dealings and the code of conduct for directors' securities transactions during the nine months ended 31 December 2018.

SHARE OPTION SCHEME

The purpose of the Share Option Scheme is for our Group to attract, retain and motivate talented participants to strive for future developments and expansion of our Group. The Share Option Scheme shall be an incentive to encourage the participants to perform their best in achieving the goals of our Group and allow the participants to enjoy the results of our Company attained through their efforts and contributions.

Further details of the Share Option Scheme are set out in the section headed "Statutory and General Information – D. Other Information – 1. Share Option Scheme" in Appendix V of the Prospectus.

For the nine months ended 31 December 2018, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme.

CORPORATE GOVERNANCE

The Group is committed to achieving high standards of corporate governance by emphasizing transparency, accountability, fairness and responsibility. The Company has adopted the Corporate Governance Code (the "**Code**") as set out in Appendix 15 of the GEM Listing Rules as its own code of corporate governance. The Company has complied with all applicable code provisions under the Code during the nine months ended 31 December 2018 and up to the date of this report.



OTHER INFORMATION

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) on 29 January 2018 with written terms of reference setting out the authorities and duties of the Audit Committee. The primary duties of the Audit Committee are mainly to:

- Make recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor
- Review the adequacy of the Group’s policies and systems regarding risk management and internal controls
- Review the financial reporting principles and practices applied by the Group in preparing its financial statements
- Before audit commencement, review external auditor’s independence, objectivity, effectiveness of the audit process and the scope of the external audit, including the engagement letter
- Monitor integrity of the Group’s financial statements and the annual, quarterly and interim financial reports, and review significant financial reporting judgements contained in them prior to approval by the Board

Currently, the Audit Committee comprises three independent non-executive Directors as follows:

Ms. Ng Yau Kuen Carmen (*Chairlady*)

Mr. Yu Ronald Patrick Lup Man

Mrs. Cheung Lau Lai Yin Becky



OTHER INFORMATION

The Group's unaudited condensed consolidated financial statements for the nine months ended 31 December 2018 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the unaudited condensed consolidated financial statements of the Group for the nine months ended 31 December 2018 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

By Order of the Board
SIMPLICITY HOLDING LIMITED
Wong Suet Hing
Chairlady and Executive Director

Hong Kong, 30 January 2019

As at the date of this report, the Board comprises Ms. Wong Suet Hing, Ms. Wong Sau Ting Peony, Mr. Wong Muk Fai Woody, Mr. Ma Sui Hong and Mr. Wong Chi Chiu Henry as executive Directors; and Ms. Ng Yau Kuen Carmen, Mrs. Cheung Lau Lai Yin Becky and Mr. Yu Ronald Patrick Lup Man as independent non-executive Directors.