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Water OASIS Group

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## **WATER OASIS GROUP LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 1161)

### **DISCLOSEABLE TRANSACTION ACQUISITION OF A BEAUTY COMPANY**

#### **Financial Adviser to the Company**



YU MING INVESTMENT MANAGEMENT LIMITED

禹銘投資管理有限公司

#### **THE ACQUISITION**

On 29 March 2021 (after trading hours), the Purchaser (a wholly-owned subsidiary of the Company), the Vendor and the Guarantors entered into the Sale and Purchase Agreement, pursuant to which the Purchaser agreed to acquire and the Vendor agreed to sell the entire issued share capital of the Target Company at the Base Consideration of HK\$45,000,000, subject to conditions and adjustments.

#### **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition is above 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

#### **GENERAL**

**As the Acquisition is subject to a number of Conditions Precedent, and may or may not complete, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.**

**THE ACQUISITION**

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**THE SALE AND PURCHASE AGREEMENT**

Date: 29 March 2021 (after trading hours)

Parties: (i) Purchaser: Water Oasis Group (BVI) Limited, an indirect wholly-owned subsidiary of the Company;

(ii) Vendor: Billion Profit Investments Limited, the sole owner of the Target Company;

(iii) Guarantors: the Guarantors

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the Vendor and the Guarantors are Independent Third Parties.

**Assets to be acquired**

The entire issued share capital of the Target Company.

**Consideration**

The Base Consideration for the Acquisition is HK\$45,000,000, subject to the following adjustments:

(a) to be increased by the amount (the “Increased Consideration”) specified in column (1) below if the consolidated turnover for the Target Group (audited by the auditors of the Company in accordance with HKFRS and the accounting principles and policies of the Company consistently applied) in respect of the 12 complete calendar months (ending on the last day of the relevant calendar month) following Completion (the “Earn Out Period”) exceeds the amount specified in column (2):

<p><b>(1) Upward adjustment by</b>  HK\$5,000,000  HK\$7,500,000  HK\$10,000,000</p>	<p><b>(2) Turnover exceeding</b>  HK\$170,000,000  HK\$185,000,000  HK\$200,000,000</p>
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- (b) to be reduced on a dollar-for-dollar basis by the amount by which the aggregate amount of cash at bank and on hand of the Target Group as shown in the Completion Accounts falls short of HK\$8,000,000 (the “Cash Adjustment”); and
- (c) to be reduced on the dollar-for-dollar basis by the amount by which the Adjusted NAV of the Target Group (defined herein below) as shown in the Completion Accounts is less than zero (“NAV Adjustment”);

provided that the aggregate of the Cash Adjustment and NAV Adjustment shall not exceed the Base Consideration.

Purchase of inventory by the Target Group prior to Completion will require the prior written consent from the Purchaser. Subject to the delivery by the Vendor to the Purchaser of evidence to the Purchaser’s satisfaction, the aggregate amount to be paid by the Target Group for such purchase(s), which shall not exceed HK\$4,500,000, shall be included in the aggregate amount of cash at bank and on hand of the Target Group for the purpose of the Cash Adjustment above.

“Adjusted NAV” means the amount that results from applying the following formula:

$$\text{NAV} - \text{CL} - \text{SL}$$

Where:

NAV is audited consolidated net asset value of the Target Group as shown in the Completion Accounts;

CL is the aggregate amount of contingent liabilities of the Target Group as shown in the Completion Accounts by way of notes;

SL is the aggregate amount of assets attributable to the waiver of the Shareholders’ Loans.

The Total Consideration shall be payable as follows:

- (a) (i) upon signing of the Sale and Purchase Agreement, the Purchaser shall pay to the Vendor HK\$22,500,000 by way of deposit (the “Deposit”) which shall, at Completion, be applied in and towards the satisfaction of the same amount of the Total Consideration; and (ii) upon or shortly after signing of the Escrow Letter, the Purchaser shall pay to the Escrow Agent the remaining balance of the Base Consideration in the sum of HK\$22,500,000 to be held on escrow;

- (b) the Purchaser and the Vendor shall instruct the Escrow Agent to release to the Vendor HK\$11,250,000 of the amount paid pursuant to (a) above upon Completion after receiving the confirmation that the Distributorship Agreements are extended on no less favourable terms than the Distribution Agreements for a further term of one year terminating on 31 March 2022;
- (c) within 10 Business Days after the Completion Accounts and the accountants certificate being issued, the Purchaser and the Vendor (if applicable) shall instruct the Escrow Agent to release to (i) the Vendor HK\$11,250,000 less (if applicable) the Cash Adjustment and the NAV Adjustment, and (ii) the Purchaser an amount equivalent to the Cash Adjustment and the NAV Adjustment (up to HK\$11,250,000); and
- (d) the Purchaser shall pay to the Vendor any amount payable in respect of the Increased Consideration within 10 Business Days following the issue of unqualified audited consolidated financial statements of the Target Group, provided that such financial statements are capable of issue by the auditors of the Company on or before the expiry of 180 days following the end of the Earn Out Period.

If the aggregate of the Cash Adjustment and NAV Adjustment exceeds HK\$11,250,000, the Vendor shall pay the difference between the said adjustments and HK\$11,250,000 to the Purchaser within 10 Business Days from the date of receipt of the Completion Accounts.

The Total Consideration was determined after arm's length negotiations between the Purchaser and the Vendor taking into consideration (i) the historical price-to-earnings ratio of 3.2x, based on the Base Consideration and the average net profit after tax for the financial years of 2017 and 2018 of the Target Group generated pre-social movements in Hong Kong and pre-COVID-19; (ii) the price-to-earnings multiples of comparable companies listed on the Stock Exchange; and (iii) the business prospects of the Target Group amid probable reversion to a normal economy in Hong Kong in 2022.

The Board considers that the Base Consideration together with the adjustment is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

### **Source of Funding**

The Purchaser will fund the Acquisition by internal resources of the Group.

## Conditions Precedent

Completion is conditional upon the fulfillment or waiver of the following conditions:

- (a) the legal and financial due diligence of each member of the Target Group and its business, operations and assets having been completed to the satisfaction of the Purchaser;
- (b) the books and registers of the Target Group having been completed and updated to the satisfaction of the Purchaser to reflect the accurate and complete record in all respects of the matters which should be dealt within those books and registers;
- (c) evidence being produced to the satisfaction of the Purchaser that all Shareholders' Loan have irrevocably been waived by those entitled thereto and any and all statutory entitlements as employees of any of the Guarantors or their associates have been settled immediately prior to Completion;
- (d) a charge over account registered against a member of the Target Group being the subject of an unconditional discharge duly registered with the Hong Kong Companies Registry;
- (e) the delivery of the audited consolidated financial statements of the Target Group for the financial year ended 31 December 2020;
- (f) there being no change to the financial condition of any member of the Target Group at any time since 30 June 2020 and up to Completion which has a material adverse effect, the warranties remaining true and accurate on the date of Completion by reference to the facts and circumstances then subsisting, and no notice or threat to terminate any of the Distributorship Agreements for the Distributed Products specified in the Sales and Purchase Agreement (whether or not conditional) having been received by any companies of the Target Group; and
- (g) the legal ownership in respect of certain shares in a member of the Target Group held on trust by a nominee shareholder for the benefit of the Target Group pursuant to a declaration of trust having been transferred to the Target Group.

Any of the Conditions Precedent may wholly or partly be waived in writing by the Purchaser (with or without conditions) at its sole discretion. If any of the Conditions Precedent have not been fulfilled on or before 10 June 2021 (or such later date as the parties may agree in writing) or waived by the Purchaser in writing, then the Sale and Purchase Agreement (save and except certain surviving clauses) shall terminate immediately thereafter and be of no further effect and none of the parties to the Sale and Purchase Agreement shall have any claim against or liability or obligation to other parties under the Sale and Purchase Agreement (save in respect of any prior breach of the Sale and Purchase Agreement), save that the Vendor shall refund the Deposit to the Purchaser within three Business Days following such termination.

## **Completion**

Subject to all the Conditions Precedent being fulfilled (to the extent not waived by the Purchaser), Completion shall take place on or before 10 June 2021 or such other date as the parties may agree in writing.

## **Undertaking, Warranties and Indemnity**

The Vendor and the Guarantors have given customary warranties and indemnities to the Purchaser relating to, among other things, legal ownership and tax liabilities of the Target Group. The obligations of the Vendor and the Guarantors are joint and several.

The Purchaser has also given customary warranties to the Vendor under the Sale and Purchase Agreement.

## **Non-competition**

In consideration of the Purchaser agreeing to enter into the Sale and Purchase Agreement, and subject to Completion taking place, Ms. Ng Wing Mee, Denise as the majority owner of the Vendor, undertakes to the Purchaser (for itself and as trustee on behalf of each of the Target Group) that she will not, and will procure that her associates will not, at any time before the expiry of two years from Completion, either on her own behalf or as agent or any person and either directly or indirectly:

- (i) (directly or indirectly), carry on, be engaged or interested in or in any way assist in any business which competes (either directly or indirectly) with the business of the Target Group in the PRC, Macau and Hong Kong;
- (ii) in competition with the Target Group directly or indirectly, canvass or solicit or accept orders from or do business with any person with whom the Target Group has done business since 1 January 2018, or otherwise induce or endeavor to induce any such person to cease being a customer of the Target Group; or
- (iii) make use of or disclose to any person any information or rights of or relating to or used by the Target Group at any time.

## INFORMATION ON THE TARGET GROUP

The Target Group is engaged in two major businesses, (i) provision of spa, aesthetic and beauty services in Hong Kong (“Service Business”); and (ii) sales of the Distributed Products in the PRC, Hong Kong and Macau (“Product Business”).

For the Service Business, the Target Group offers (i) traditional beauty treatments including treatments with focus on individual parts of the body such as facial treatments, neck treatments, eye treatments, hand treatments and body treatments, as well as spa and massage services, and (ii) medical beauty services. It operates six spa centres under “FRÉDÉRIQUE”, “Medic i-Laser” and “AesMedic” and one shop under “32°C”.

The Target Group is authorized to carry out the Product Business by selling the Distributed Products under the Distribution Agreements in Hong Kong, Macau and the PRC. The Distributed Products cover mainly skin care, body care and hair care. In Hong Kong, the Target Group sells products via beauty product sales counters. In the PRC, it sells through authorized online distributors and a self-owned online shop, and also through offline distributors and a self-run counter in Suzhou of Jiangsu province.

Set out below are the financial information of the Target Group for the four years ended 31 December 2017, 2018, 2019 and 2020:

	<b>For the year ended 31 December</b>			
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Revenue	162,965	180,666	149,712	108,983
Net profit/(loss)				
before tax	15,089	22,148	5,469	4,039
Net profit/(loss)				
after tax	11,631	16,456	856	1,115

As at 31 December 2020, the net asset value of the Target Group was approximately HK\$20.5 million.

## INFORMATION ON THE COMPANY AND THE PURCHASER

The Group is principally engaged in the operation of beauty centers, spas and medical beauty centers as well as the distribution of skincare products in Hong Kong, Macau and the PRC.

The Purchaser is principally engaged in investment holding.

## **INFORMATION ON THE VENDOR AND THE GUARANTORS**

The Vendor is a company incorporated in BVI with limited liability and is principally engaged in investment holding. The Vendor is beneficially owned as to 79% by Ms. Ng Wing Mee, Denise, 20% by Ms. Chan Sau Kan Justina and 1% by Ms. Cheng Li Mei, who will be the Guarantors in undertaking the performance of the obligations by the Vendor.

## **REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Group is principally engaged in the operation of beauty centers, spas and medical beauty centers as well as the distribution of skincare products in Hong Kong, Macau and the PRC.

The Board is of the view that the Acquisition is an opportunity not otherwise available at the Base Consideration if not for the social movements in second half of 2019 and COVID-19 in 2020. The Acquisition is a strategic move to expand active customer base, acquire a pool of skilled professionals, and increase the number of outlets. Furthermore, after the Group and the Target Group integrate their operations, it is expected that the Acquisition can create synergy, such as cost saving, marketing and cross selling.

The Board believes that the setback in the financial performance of the Target Group in 2019 and the first half of 2020 was chiefly caused by the adverse impact of the social movements in Hong Kong, followed by the COVID-19, and was neither contributed by the management of the Target Group nor recurring in nature. The Board believes that the threat of COVID-19 is expected to ease off with vaccines becoming available gradually in 2021 and the operations of the Target Group should be able to return to normal in 2022.

Having considered the abovementioned factors, the Board is of the view that the terms and conditions of the Sale and Purchase Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

## **ACCOUNTING IMPLICATIONS**

Although the Board believes the Acquisition is strategic and synergistic to the Group's expansion, as the Consideration is in excess of the net asset value of the Target Group, and the market conditions in which the Target Group operates remain slow during COVID-19, there may or may not be any goodwill impairment in the first consolidated financial statements of the Group to be published after Completion when the performance of the Target Group will be consolidated into the Group.



## LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition is above 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

## GENERAL

**As the Acquisition is subject to a number of Conditions Precedent, and may or may not complete, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.**

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following respective meanings:

“Acquisition”	the acquisition of the Target Company pursuant to the terms and conditions of the Sale and Purchase Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Base Consideration”	the base consideration for the Acquisition of HK\$45,000,000, subject to adjustments
“Board”	the board of directors of the Company
“Business Day(s)”	a day (other than a Saturday or a Sunday or a public holiday or a day on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks generally are open for business in Hong Kong
“BVI”	the British Virgin Islands
“Company”	Water Oasis Group Limited, a company incorporated in Cayman Islands with limited liability whose issued Shares are listed on the Main Board of the Stock Exchange (stock code: 1161)
“Completion”	completion of the Acquisition pursuant to the Sale and Purchase Agreement

“Completion Accounts”	the consolidated balance sheet of the Target Company as at, and the consolidated profit and loss account and consolidated cash flow statement of the Target Company for the period starting from 1 January 2021 and ending on, the date of Completion prepared and audited by the reporting accountants of the Company in accordance with HKFRS
“Conditions Precedent”	the conditions precedent set out in the Sale and Purchase Agreement, details of which are set out in the subsection headed “Conditions Precedent” in this announcement
“COVID-19”	the Coronavirus Disease 2019
“Directors”	the directors of the Company
“Distributed Products”	the beauty brands products that the Target Group has the right to distribute in Hong Kong, Macau and the PRC pursuant to the Distribution Agreements
“Distribution Agreements”	the distribution agreements in respect of the Target Group’s right to distribute the Distributed Products entered into between the Target Group and a Japanese company, subject to periodic renewal
“Escrow Agent”	the escrow agent to be appointed by the Vendor and the Purchaser
“Escrow Letter”	the escrow letter to be entered into between the Escrow Agent, the Vendor and the Purchaser
“Group”	the Company and its subsidiaries
“Guarantor(s)”	Ng Wing Mee Denise, Chan Sau Kan Justina and Cheng Li Mei
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	the Hong Kong Financial Reporting Standards
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons (as defined under the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	Macau Special Administrative Region of the PRC
“PRC”	the People’s Republic of China but excluding, for the purposes of this announcement, Hong Kong, Macau and Taiwan
“Purchaser”	Water Oasis Group (BVI) Limited, an indirect wholly-owned subsidiary of the Company incorporated in BVI with limited liability
“Sale and Purchase Agreement”	the agreement dated 29 March 2021(after trading hours) entered into among the Company, the Vendor and the Guarantors in relation to the Acquisition
“Shareholder(s)”	holder(s) of Share(s)
“Shareholders’ Loan”	means all amounts due from any member of the Target Group to any of the Vendor, the Guarantors or their associate(s)
“Shares”	ordinary shares of par value of HK\$0.10 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Millistrong Holdings Limited, a company incorporated in Hong Kong with limited liability
“Target Group”	the Target Company and its subsidiaries

“Total Consideration”	the total consideration for the Acquisition upon adjustment of the Base Consideration
“Vendor”	Billion Profit Investments Limited, a company incorporated in BVI with limited liability
“%”	per cent.

On behalf of the Board  
**Water Oasis Group Limited**  
**Tam Siu Kei**  
*Executive Director and Chief Executive Officer*

Hong Kong, 29 March 2021

*As at the date of this announcement, the executive directors of the Company are Mr. Yu Kam Shui, Erastus, Mr. Tam Siu Kei, Ms. Yu Lai Chu, Eileen and Ms. Lai Yin Ping. The independent non-executive directors of the Company are Prof. Wong Lung Tak, Patrick, B.B.S., J.P., Mr. Wong Chun Nam, Duffy, B.B.S., J.P. and Dr. Wong Chi Keung.*