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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)

### **SUPPLEMENTAL ANNOUNCEMENT**

### **SETTLEMENT DEED RELATING TO ACQUISITION OF A BEAUTY COMPANY**

Reference is made to the announcements of Water Oasis Group Limited (the “**Company**”) dated 29 March 2021, 9 June 2021, 28 June 2021 and 23 June 2022 (the “**Announcements**”) in relation to the acquisition of the entire issued share capital of a beauty company by the Company. Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

The Company would like to provide supplemental information on the Settlement Deed as follows.

#### ***Consideration Adjustments***

Pursuant to the Sale and Purchase Agreement, after Completion, the Vendor and the Guarantors should, *inter alia*:

- (i) procure the Target Company within 60 days following Completion, prepare draft Completion Accounts in accordance with HKFRS and accounting principles and policies adopted for the audited accounts of the Target Group for the years ended 31 December 2019 and 2020 (“**2019 and 2020 Audited Accounts**”) consistently applied, and deliver the same to the Reporting Accountants together with supporting accounting evidence and to enter into an audit engagement on customary terms with the Reporting Accountants to prepare the Completion Accounts;
- (ii) enter into an engagement letter jointly with the Purchaser (as joint engaging party) with the Reporting Accountants (as the engaged party) for the production of the Completion Accounts and the accountants certificate.

After completion of the Acquisition, the Company liaised with the Vendor for the preparation of the Completion Accounts, and the Reporting Accountants expressed its approach in the application of accounting policies and principles (including revenue recognition from contracts with customers under HKFRS15 which became effective on 1 January 2018) in the preparation of the Completion Accounts. The Vendor disagreed with the approach of the Reporting Accountants as the Vendor considered it inconsistent with the accounting principles and policies adopted for the 2019 and 2020 Audited Accounts and might incorrectly result in the Total Consideration to become HK\$nil after taking into account the NAV Adjustment as explained below. The Vendor declined to enter into a joint engagement letter with the Purchaser for the appointment of the Reporting Accountants for the Completion Accounts. Since the Reporting Accountants must be jointly appointed by the Purchaser and the Vendor, the engagement did not materialize and no Completion Accounts has been prepared.

Pursuant to the Sale and Purchase Agreement, the Base Consideration should be (i) 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 is less than an aggregate of HK\$8,000,000; and (ii) reduced on a dollar-for-dollar basis by the amount by which the adjusted net asset value of the Target Group as shown in the Completion Accounts is less than zero, provided that the aggregate of the Cash Adjustment and NAV Adjustment shall not exceed the Base Consideration.

As at the date of Completion, the Target Group had cash and bank balance of not less than HK\$8,000,000. Therefore, no Cash Adjustment was necessary.

After Completion, without the joint audit process, the management of the Company prepared the management accounts of the Target Group based on the Target Group's summarised financial information, and showed net liabilities of HK\$48,266,000 as at the Completion date. Therefore, if the Completion Accounts through a jointly engaged audit revealed the same results, the consideration for the Acquisition would become HK\$nil based on the NAV Adjustment. However, the joint audit did not happen, and may or may not yield the same result.

### ***Due Diligence Works Performed by the Company***

The Group was one of the major competitors of the Target Group in Hong Kong, and the Vendor was vigilant during the negotiation and sensitive in granting access of information during the due diligence process. Given the Acquisition might or might not proceed, the Vendor restricted the Company and its advisers in reviewing documents of the Target Group only in a physical data room without taking copies. The Company considered it highly inconvenient and restrictive, but commercially justifiable in view of the competition between the Group and the Target Group. Given the limitation, the Company believes that sufficient due diligence works have been performed by the Company as well as by the professional advisers appointed for this purpose.

- (i) A financial adviser was appointed for the negotiation, recommendation and the preparation of a business due diligence report;
- (ii) A legal adviser was appointed for preparation of a legal due diligence report and legal documentation;
- (iii) A financial consultant was appointed for the preparation of a financial and tax due diligence report; and
- (iv) The senior management of the Company has more than 20 year experience in the beauty industry in Hong Kong and consider themselves experts in the beauty industry including the business landscape, development and business prospects of its competitors in Hong Kong, and the post COVID-19 operating environment. An informed decision for the Acquisition was made by the management of the Company based on the various due diligence reports and most importantly, their business acumen.

### ***Reasons for the arising of the Disputes***

The Disputes arose primarily in the disagreement on the approach of preparing the Completion Accounts and the relevant adjustments (in particular recognition of revenue (such as breakage rate and contract expiry dates of service plans, recognition of customer loyalty scheme and coupon vouchers) in accordance with HKFRS 15) that might be in the view of the Vendor inconsistent with its past auditors' practice, and might have an impact on the reserve available for distribution to the Vendor prior to Completion. The Disputes pivot on the consequence on the consideration for the Acquisition, which is capable of becoming HK\$nil taking into account the NAV Adjustment and the Vendor could be required (even if wrongly) to repay the entire HK\$33,750,000 to the Company. From the perspective of the Vendor, it was commercially unjustifiable to dispose of the Target Group, a sizeable beauty business franchise, at zero consideration.

### ***The Board's Assessment on the Settlement Deed***

The Vendor claimed that in accordance with HKFRS and accounting principles and policies adopted for the 2019 and 2020 Audited Accounts, the financial position of the Target Group as at Completion would entitle it to the remaining HK\$11.25 million of the Base Consideration as well as a special dividend of HK\$9 million declared and receivable from the Target Company and a credit card pledged deposit of HK\$5.6 million available for distribution, totalling HK\$25.85 million (the “**Claim Amounts**”).

The Final Consideration of HK\$42.35 million (comprising HK\$33.75 million already paid by the Purchaser and HK\$8.6 million payable by the Purchaser) was offered by the Company for a full and final settlement with the Vendor. The Final Consideration was determined by the Company with reference to (i) the Claim Amounts; (ii) the Base Consideration of HK\$45.0 million agreed to be paid by the Company upon signing of the Sale and Purchase Agreement; (iii) a reasonable price-to-earnings ratio (“**PE Ratio**”) based on the Final 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; (iv) the financial performance of the Target Group was profitable after Completion; (v) the PE Ratio of companies (principally engaged in provision of medical and aesthetic services in Hong Kong) listed on the Stock Exchange; (vi) the estimated accounting net liabilities of the Target Group of approximately HK\$48.3 million as at the Completion date; and (vii) the business prospects of the Target Group.

The Settlement Deed is a time efficient, relatively cost effective means to achieve a determinable outcome on the Disputes, and will free up management time to focus on business development of the Group (including the Target Group) for the benefits of the Company and its Shareholders.

In view of the above, the Board considered the Settlement Deed (including the Final Consideration) fair and reasonable and in the best interests of the Company and the Shareholders.

On behalf of the Board  
**Water Oasis Group Limited**  
**Tam Siu Kei**

*Executive Director and Chief Executive Officer*

Hong Kong, 28 July 2022

*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.*