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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)

ISSUE OF CONVERTIBLE BONDS AND SHARES UNDER GENERAL MANDATE

SUBSCRIPTION AGREEMENT

On 27 April 2010, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has agreed to subscribe for (i) the Convertible Bonds in an aggregate principal amount of HK\$39,000,000 and (ii) 24,840,764 Subscription Shares at the Subscription Price of HK\$1.57 per Share.

Upon full conversion of the HK\$39,000,000 principal amount of the Convertible Bonds at the Initial Conversion Price, a total of 17,647,058 Conversion Shares will be issued, representing approximately 2.4% of the existing issued share capital of the Company of 739,112,000 Shares as at the date of this announcement and approximately 2.3% of the Company's issued share capital as enlarged by the issue of the Conversion Shares at the Initial Conversion Price.

Pursuant to the Subscription Agreement, an aggregate of 24,840,764 Subscription Shares will be issued and allotted, representing approximately 3.4% of the existing issued share capital of the Company of 739,112,000 Shares as at the date of this announcement and approximately 3.3% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

GENERAL

The Conversion Shares and the Subscription Shares will be issued pursuant to the General Mandate.

Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Subscription Shares and the Conversion Shares.

This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for Shares or other securities in the Company. Shareholders and the potential investors of the Company should note that completion of the Subscription Agreement is conditional and they should exercise caution when dealing in the Shares.

The Board is pleased to announce that on 27 April 2010, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has agreed to subscribe for the Convertible Bonds in an aggregate principal amount of HK\$39,000,000 and 24,840,764 Subscription Shares at the Subscription Price of HK\$1.57 per Share. The Subscriber is an investment holding company established by Darby Asia Mezzanine Fund II, L.P., a fund advised by a subsidiary of Darby Overseas Investments, Ltd., the private equity arm of Franklin Templeton Investments, and a wholly owned subsidiary of Franklin Resources, Inc. NYSE: BEN, a global investment management organisation operating as Franklin Templeton Investments. Franklin Templeton Investments provides global and domestic investment management solutions managed by its Franklin, Templeton, Mutual Series, Fiduciary Trust, Darby and Bissett investment teams.

THE SUBSCRIPTION AGREEMENT

The Subscription Agreement contains the principal terms set out below:-

Parties: The Company, as issuer
The Subscriber

To the Directors' best knowledge, information and belief having made all reasonable enquiry, each of the Subscriber and its ultimate beneficial owners are parties independent of the Company and its connected persons (as defined under the Listing Rules).

Subscription: The Subscriber has agreed to subscribe for and the Company agreed to issue, for cash, (i) the Convertible Bonds in the principal amount of HK\$39,000,000 at face value and (ii) the Subscription Shares at HK\$1.57 per share.

Conditions Precedent: The Subscription Agreement is conditional upon:-

- (a) the Stock Exchange having granted (either unconditionally or subject only to conditions to which the Subscriber cannot reasonably object) listing of, and permission to deal in, the Conversion Shares and the Subscription Shares;
- (b) the representations and warranties set forth in the Subscription Agreement being true, complete, correct and not misleading in all material respects as of the completion date; and
- (c) the delivery of legal opinion (in an agreed form) from the Company's legal counsel as to the laws of the Cayman Islands, opining on such matters as the Subscriber may reasonably require.

Completion: Completion of the Subscription shall take place on the second Business Day after fulfillment of conditions precedent (a) set out above or such other date as may be agreed between the parties to the Subscription Agreement in writing.

Termination: If any of the conditions precedent set out above have not been fulfilled or waived (in respect of (b) and (c) of the conditions precedent set out above) by the Subscriber on or before the day which falls immediately after the expiry of 20 calendar days immediately following the date of the Subscription Agreement (or such later date as may be agreed by the parties hereto in writing) then the Subscription Agreement shall lapse immediately thereafter and be of no further effect and neither party to the Subscription Agreement shall have any claim against or liability or obligation to the other party under the Subscription Agreement save and except for any antecedent breach.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The following describes the principal terms of the Convertible Bonds:-

Principal amount of the Convertible Bonds:	HK\$39,000,000
Authorised denominations for conversion:	HK\$10,000,000 or integral multiples thereof
Maturity date:	the day before the third anniversary from the date of issue of the Convertible Bonds.
Redemption:	Unless previously converted or purchased or redeemed, the Convertible Bonds will be redeemed on the maturity date at the Redemption Amount. In the event of a Change of Control, a merger, consolidation or other combination by the Company resulting in a Change of Control, any wind-up, liquidation, dissolution, trade sale, delisting of the Company, or transfer of all or substantially all of the Company's assets (each an "Early Redemption Event"), a Bondholder may during the period of 30 days immediately following the date of the first announcement of the transaction which if completed would result in the Early Redemption Event by notice in writing to the Company require the Company to redeem all (but not part only) of the outstanding principal amount of its Convertible Bonds on the later of the expiry of 20 Business Days from the notice from the Bondholder and the date on which the Early Redemption Event in fact occurs, at the Redemption Amount.
Conversion period:	The Bondholder can convert the outstanding principal amount of the Convertible Bonds in whole or in part into Shares (in authorised denominations) commencing on and excluding the 7 th day after the issue date up to and including the date which is seven days prior to the maturity date.
Mandatory Conversion:	If (i) the average of the closing price of the Shares for each of 30 consecutive Trading Days (the first of which occurs on or after the first anniversary of the date of issue of the Convertible Bonds and before the second anniversary day of the issue of the Convertible Bonds) equals or exceeds 150% of the Conversion Price prevailing on the last of those

30 Trading Days and (ii) the average daily trading volume of Shares for such 30 consecutive Trading Days equals or exceeds 0.5% of the average total number of Shares issued and paid up for those 30 Trading Days, 50% of the then outstanding principal amount of Convertible Bonds shall be mandatorily converted in Shares on the Business Day next following the last of those 30 Trading Days at the then prevailing Conversion Price.

If (i) the average of the closing price of the Shares for each of 30 consecutive Trading Days (the first of which occurs on or after the second anniversary of the issue of the Convertible Bonds and 21 Business Days before the maturity day of the Convertible Bonds) equals or exceeds 175% of the Conversion Price prevailing on the last of those 30 Trading Days and (ii) the average daily trading volume of Shares for such 30 consecutive Trading Days equals or exceeds 0.5% of the average total number of Shares issued and paid up for those 30 Trading Days, all of the then outstanding principal amounts of the Convertible Bonds shall be mandatorily converted in Shares on the Business Day next following the last of those 30 Trading Days at the then prevailing Conversion Price.

Initial Conversion price: HK\$2.21 per Conversion Share, subject to adjustment for, among other things, consolidation, subdivision or reclassification of Shares, capitalisation of profits or reserves, capital distributions (other than cash dividend to be paid out of net profits for all periods after that ended 30 September 2009), rights issues of shares or options over shares, rights issues of other securities and other dilutive events.

Interest rate: 5% per annum, payable semi-annually in arrears.

Transferability: The Convertible Bonds are not transferable.

Voting: Bondholders will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of their being bondholders.

Listing: No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.

Application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds.

Ranking:

The Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds will rank *pari passu* in all respects with all other Shares outstanding at the date of conversion and be entitled to all dividends and distributions the record date for which falls on a date on or after the date of the conversion notice.

Upon full conversion of the HK\$39,000,000 principal amount of the Convertible Bonds at the Initial Conversion Price, a total of 17,647,058 Conversion Shares will be issued, representing approximately 2.4% of the existing issued share capital of the Company of 739,112,000 Shares as at the date of this announcement and approximately 2.3% of the Company's issued share capital as enlarged by the issue of the Conversion Shares at the Initial Conversion Price.

INITIAL CONVERSION PRICE

The Initial Conversion Price, being HK\$2.21 per Conversion Share, represents:-

- (i) a premium of approximately 13.3% over the closing price of HK\$1.95 per Share as quoted on the Stock Exchange on the date of this announcement;
- (ii) a premium of approximately 23.5% over the average closing price of HK\$1.79 per Share as quoted on the Stock Exchange for the 5 consecutive Trading Days up to and including the Last Trading Day;
- (iii) a premium of approximately 26.3% over the average closing price of HK\$1.75 per Share as quoted on the Stock Exchange for the 10 consecutive Trading Days up to and including the Last Trading Day; and
- (iv) a premium of approximately 25.0% over the average closing price of HK\$1.77 per Share as quoted on the Stock Exchange for the 30 consecutive Trading Days up to and including the Last Trading Day.

The Initial Conversion Price was determined after arm's length negotiation between the Company and the Subscriber with reference to the prevailing market price of the Shares.

The net price of each Conversion Share to the Company, calculated by using the aggregate principal amount of the Convertible Bonds of HK\$39,000,000 less a pro rata amount of estimated expenses of the Subscription and dividing the difference by 17,647,058 Conversion Shares falling to be issued on conversion in full of the Convertible Bonds at the Initial Conversion Price, is expected to be approximately HK\$2.18.

SUBSCRIPTION SHARES

Pursuant to the Subscription Agreement, an aggregate of 24,840,764 Subscription Shares will be issued and allotted, representing approximately 3.4% of the existing issued share capital of the Company of 739,112,000 Shares as at the date of this announcement and approximately 3.3% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

The Subscription Shares, when allotted and issued, shall rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Subscription Shares.

SUBSCRIPTION PRICE

The Subscription Price of HK\$1.57 per Share represents:-

- (i) a discount of approximately 19.5% to the closing price of HK\$1.95 per Share as quoted on the Stock Exchange on the date of this announcement;
- (ii) a discount of approximately 12.3% to the average closing price of HK\$1.79 per Share as quoted on the Stock Exchange for the 5 consecutive Trading Days up to and including the Last Trading Day;
- (iii) a discount of approximately 10.3% to the average closing price of HK\$1.75 per Share as quoted on the Stock Exchange for the 10 consecutive Trading Days up to and including the Last Trading Day; and
- (iv) a discount of approximately 11.3% to the average closing price of HK\$1.77 per Share as quoted on the Stock Exchange for the 30 consecutive Trading Days up to and including the Last Trading Day.

The Subscription Price was determined after arm's length negotiation between the Company and the Subscriber with reference to the prevailing market price of the Shares.

The net price of each Subscription Share to the Company, calculated by the gross proceeds from the issue of the Subscription Shares of approximately HK\$39,000,000 less a pro rata amount of estimated expenses of the Subscription and dividing the difference by 24,840,764 Subscription Shares, is expected to be approximately HK\$1.55.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (a) as at the date of this announcement; (b) immediately upon issuance of the 24,840,764 Subscription Shares; (c) immediately upon issuance of the Subscription Shares and full conversion of the Convertible Bonds at the Initial Conversion Price of HK\$2.21 for a total of 42,487,822 Shares (assuming there being no other change in the issued share capital and shareholding structure of the Company since the date of this announcement):

	As at the date of this announcement		Immediately upon issuance of Subscription Shares		Immediately upon issuance of Subscription Shares and full conversion of the Convertible Bonds at the Initial Conversion Price	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Yu Lai Si	166,113,760	22.5	166,113,760	21.8	166,113,760	21.3
Yu Lai Chu, Eileen	5,960,000	0.8	5,960,000	0.8	5,960,000	0.8
Yu Kam Shui, Erastus	4,000,000	0.5	4,000,000	0.5	4,000,000	0.5
Lai Yin Ping	6,000,000	0.8	6,000,000	0.8	6,000,000	0.8
Wong Lung Tak, Patrick, <i>J.P.</i>	1,200,000	0.2	1,200,000	0.2	1,200,000	0.2
Wong Chun Nam	1,200,000	0.2	1,200,000	0.2	1,200,000	0.2
Zinna Group Limited (<i>Note 1</i>)	155,333,760	21.0	155,333,760	20.3	155,333,760	19.8
Advance Favour Holdings Limited (<i>Note 2</i>)	77,666,880	10.5	77,666,880	10.1	77,666,880	9.9
Billion Well Holdings Limited (<i>Note 3</i>)	77,666,880	10.5	77,666,880	10.1	77,666,880	9.9
The Subscriber	–	–	24,840,764	3.3	42,487,822	5.4
Other public	243,970,720	33.0	243,970,720	31.9	243,970,720	31.2
	<u>739,112,000</u>	<u>100.0</u>	<u>763,952,764</u>	<u>100.0</u>	<u>781,599,822</u>	<u>100.0</u>

Notes:

- Zinna Group Limited is a company incorporated in Hong Kong. All of its voting rights are held by Royalion Worldwide Limited, a British Virgin Islands company, which is 51% owned by Tam Chie Sang and 49% owned by his spouse, Yu Lai Chu, Eileen, both are Directors.
- Advance Favour Holdings Limited is a British Virgin Islands company beneficially owned by Lai Yin Ling, sister of Lai Yin Ping, a Director.
- Billion Well Holdings Limited is a British Virgin Islands company beneficially owned by Lai Yin Ling, sister of Lai Yin Ping, a Director.

The Company has granted the Option to subscribe up to 36,955,600 Shares (adjusted to 73,911,200 Shares as a result of the bonus issue of the Company which is the subject of the shareholders circular dated 22 January 2010). As at the date of this announcement, the Option has not been exercised. Save as disclosed herein, as at the date of this announcement, there are no outstanding options, warrants or other securities which carry rights to subscribe for or be converted into Shares.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Group is a leading skin-care and beauty groups with exclusive distribution rights for the “~H₂O+” brand skin-care products in Hong Kong, Macau, Taiwan, Singapore and the PRC. It also distributes a French botanical beauty brand “Yves Rocher” with exclusive distributorship rights in the PRC and a Hungarian dermatologist skin-care brand “Erno Laszlo” with exclusive distributorship rights in Hong Kong and the PRC. In addition, the Group has also launched its first self-owned, managed and operated retail brand business “JM Makeup” in the PRC. The Group also operates spa and beauty services businesses under the brands “Oasis Spa”, “Oasis Beauty”, “Aqua Beauty”, “Oasis Homme” and “Oasis Medical Centre”. The Group has recently entered into a conditional agreement to acquire the business under the “Glycel” brand in Hong Kong (which is the subject of the Company’s announcement dated 15 April 2010).

It is the Group’s strategy to develop into a brand ownership business through both self development of brands and beauty services as well as through mergers and acquisitions to strengthen its product offering and to enhance the spectrum of its customers. The net proceeds from the Subscription of approximately HK\$77,000,000 will be primarily applied towards development of existing brands and beauty services and potential acquisition of other brands and beauty services in the skin-care industry. The Directors consider that the Subscription represents an opportunity to raise capital for the Company’s pursuance of business expansion and diversification.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Subscription Agreement are on normal commercial terms and fair and reasonable, and the transactions contemplated under the Subscription Agreement is in the interests of the Company and the Shareholders as a whole.

FUND-RAISING ACTIVITIES OF THE COMPANY DURING THE PAST 12 MONTHS

Save as disclosed below, the Company has not carried out any other fund raising activities during the 12 months immediately preceding the date of this announcement.

Date of announcement	Fund raising activity	Net proceeds raised	Intended use of proceeds	Actual use of proceeds
20 December 2009	Grant of Option	Not applicable (The Option has not been exercised.)	Future investment or expansion and general working capital	Not applicable (The Option has not been exercised and therefore no proceed has been raised.)

GENERAL

The Conversion Shares and the Subscription Shares will be issued pursuant to the General Mandate.

Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Subscription Shares and the Conversion Shares.

This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for Shares or other securities in the Company. Shareholders and potential investors of the Company should note that completion of the Subscription Agreement is conditional and they should exercise caution when dealing in the Shares.

DEFINITIONS

The following terms are used in this announcement with the meanings set out below:-

“associates”	the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	holder(s) of the Convertible Bonds
“Business Day”	a day (other than a Saturday or Sunday) on which licensed banks in Hong Kong are generally open for business

“Change of Control”	any event or series of events, which may include dilutive events such as issues of shares, as a result of which the voting rights held by any Shareholder (other than Ms. Yu Lai Si, Ms. Yu Lai Chu, Eileen, Mr. Yu Kam Shui, Erastus, Mr. Tam Chie Sang, Ms. Lai Yin Ling and Ms. Lai Yin Ping and any of their associates (as defined in the Takeovers Code)) in the Company is equal to, or more than, 30% of the voting rights of the Company
“Company”	Water Oasis Group Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange
“connected person”	the meaning ascribed thereto in the Listing Rules
“Convertible Bonds”	the 5% convertible bonds due 2013 of an aggregate principal amount of HK\$39,000,000 to be issued by the Company pursuant to the Subscription Agreement
“Conversion Shares”	the new Shares to be issued by the Company as a result of the exercise of the conversion rights attaching to the Convertible Bonds
“Director(s)”	the director(s) of the Company
“General Mandate”	the mandate granted to the Directors by the Shareholders at the annual general meeting of the Company held on 16 March 2010 to allot, issue and deal with up to 20% of the then issued share capital of the Company as at the date of such annual general meeting, i.e. 73,911,200 Shares
“Group”	the Company and its subsidiaries
“Initial Conversion Price”	the initial conversion price of HK\$2.21 per Conversion Share (subject to adjustments)
“Last Trading Day”	26 April 2010, being the last Trading Day of the Shares on the Stock Exchange prior to the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Option”	the option granted by the Company to subscribe up to 36,955,600 Shares (adjusted to 73,911,200 Shares as a result of the bonus issue of the Company which is the subject of the shareholders circular dated 22 January 2010) pursuant to a consultancy agreement dated 18 December 2009 entered into between the Company, Luminary Capital Limited and Mr. Leung Pak To, Francis, which was subject of the Company’s announcement dated 20 December 2009
“PRC”	the People’s Republic of China
“Redemption Amount”	the outstanding principal amount of the Convertible Bonds held together with such other amount as would provide the Bondholder with an internal rate of return of 12 per cent. per annum (inclusive of interest received) had such Convertible Bonds been held by it from the date of issue of the Convertible Bonds to the applicable date of redemption
“Share(s)”	ordinary share(s) of HK\$0.1 each in the issued share capital of the Company
“Shareholders”	the holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	DAMF II Beauty Services Holdings Limited
“Subscription”	the subscription of the Convertible Bonds in the aggregate principal amount of HK\$39,000,000 and the 24,840,764 Subscription Shares on the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 27 April 2010 entered into between the Company and the Subscriber in relation to the Subscription
“Subscription Price”	HK\$1.57 per Subscription Share
“Subscription Shares”	24,840,764 new Shares to be issued pursuant to the Subscription Agreement
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers

“Trading Day”	a day on which the Shares are traded on the Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

By order of the Board
WATER OASIS GROUP LIMITED
YU LAI SI
Executive Director and Chief Executive Officer

Hong Kong, 27 April 2010

As at the date of this announcement, the executive directors of the Company are Yu Lai Si, Tam Chie Sang, Yu Lai Chu, Eileen, Yu Kam Shui, Erastus and Lai Yin Ping. The independent non-executive directors of the Company are Wong Lung Tak, Patrick, J.P., Wong Chun Nam and Wong Chi Keung.