Water OASIS Group
奧 思 集 團

WATER OASIS GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1161)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30TH SEPTEMBER, 2018

FINANCIAL HIGHLIGHTS

- For the year under review, the Group's turnover increased by 9.9% to approximately HK$708.4 million when compared with that of last year. This was mainly due to the increased revenue contribution from both our service and retail segments.

- The Group's sales mix on beauty service segment rose to approximately 79.2% and retail segment of 20.8% in fiscal 2018, comparing with that of last year of 78.2% and 21.8%.

- Gross profit margin for the 2018 financial year increased to approximately 92.4% from 91.9% of last year.

- Marketing expenses and staff costs were increased by 60.4% and 5.4% respectively, while rental costs were decreased by 0.9% in the financial year of 2018. Increased marketing expenses were spent intentionally to increase exposures and sales momentum to our Group's various brands. Higher staff cost was due to increased service staff offering better service quality to customers. Reduced rental was due to the previous closure of some unprofitable outlets and partly due to careful rent negotiations for renewals. All these major costs were considered reasonable when expressed as a percentage to turnover.

- Capital expenditures spending for fiscal 2018 increased to HK$63.8 million from HK$15.2 million. This is because the Group has purchased a property of HK$34.5 million in Yuen Long which the Group had rented previously. The remaining increase was spent on purchasing new beauty equipment and renovations of our beauty salons.

- The Group retained a strong cash position of approximately HK$376.6 million as at 30th September, 2018.

- Recommended the payment of a final dividend of 5.5 HK cents per share.

OPERATION HIGHLIGHTS

Beauty Services Business

- In the year under review, the Group's Hong Kong beauty services segment performance was strong with a double digit growth across Oasis brand portfolio including Oasis Beauty, Oasis Spa and Oasis Medical Centre, as well as Glycel. These positive results were driven by the Group's commitment on new treatment services and latest high-tech beauty equipment, complementing with the support on increased marketing efforts.

- Advertising efforts made in this fiscal year include Christine Kuo, our new image artist of Glycel brand launching new Glycel products and treatments as well as Joey Yung, promoting our new medical beauty treatment services for our Oasis Beauty and Oasis Medical brand treatments which gives public a wide publicity across different media.

- Two Glycel outlets were opened including a Glycel Skinspa in One Pacific Centre in Kwun Tong and a retail counter in YATA Taipo, whereas Glycel Yuen Long outlet had moved from Kolour to Yoho Mall. Oasis Beauty Store in Macau had moved to a larger sized space in a popular mall.

- As at 30th September, 2018, the Group operated 9 Glycel Skinspas, 15 Oasis Beauty centres, 3 Oasis Spa centres, 6 Oasis Medical Centres, and 2 Oasis Homme centres in Hong Kong as well as 3 self-managed Oasis Beauty centres in PRC and 1 Oasis Beauty Store in Macau.

Retail Business

- The Group's retail business includes three self-owned brands namely Glycel, Eurobeauté and DermaSynergy, and two licensed brands Erno Laszlo and H2O+.

- In the year under review, all retail brands recorded a positive growth in sales except H2O+. Among those, Eurobeauté performed especially well while H2O+ sales was decreased proportionately in line with the reduction in the number of outlets.

- As at 30th September, 2018, the Group operated 4 H2O+ outlets, 5 Erno Laszlo stores, 6 Glycel stores in Hong Kong and 1 further Glycel outlet in Macau.

Outlook

- The Group will continue to focus and improve on the business of the Group's beauty service, followed by the retail segment. This will be achieved by providing new beauty equipment and products, upgrading its beauty service environments and investing in targeted advertising in both old and new media so that more business will be generated from our customers.

AUDITED FINANCIAL RESULTS

The board of directors (the "Board") of Water Oasis Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively known as the "Group") for the year ended 30th September, 2018 (the "Consolidated Financial Statements") as follows:

Consolidated Statement of Profit or Loss

		For the year ended 30th September,	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
Turnover	3	**708,360**	644,831
Purchases and changes in inventories of finished goods		**(54,044)**	(52,416)
Other income		**8,575**	8,685
Other gains or losses		**2,524**	(1,482)
Staff costs		**(301,282)**	(285,844)
Depreciation of property and equipment		**(16,590)**	(16,396)
Finance costs	4	**(389)**	(455)
Other expenses		**(231,553)**	(211,202)
Profit before taxation		**115,601**	85,721
Taxation	5	**(20,490)**	(16,397)
Profit for the year	6	**95,111**	69,324
Profit (loss) for the year attributable to:			
Owners of the Company		**95,238**	69,331
Non-controlling interests		**(127)**	(7)
		95,111	69,324
Earnings per share			
Basic and diluted	7	**12.8 HK cents**	9.1 HK cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 30th September,	
	2018	2017
	HK$'000	*HK$'000*
Profit for the year	**95,111**	69,324
Other comprehensive (expense) income:		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(806)**	457
Total comprehensive income for the year	**94,305**	69,781
Total comprehensive income (expense) for the year attributable to:		
Owners of the Company	**94,411**	69,794
Non-controlling interests	**(106)**	(13)
	94,305	69,781

Consolidated Statement of Financial Position

		As at 30th September,	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
Non-current assets			
Intangible assets		**59,162**	59,184
Goodwill		**3,012**	3,012
Investment properties		**233,604**	230,738
Property and equipment		**76,287**	30,216
Rental deposits		**27,160**	27,335
Deferred tax assets		**4,103**	3,531
		403,328	354,016
Current assets			
Inventories		**36,903**	30,060
Trade receivables	9	**28,677**	28,087
Prepayments		**82,933**	71,139
Other deposits and receivables		**10,836**	11,560
Bank balances and cash		**376,571**	402,430
		535,920	543,276
Current liabilities			
Trade payables	10	**7,059**	7,109
Accruals and other payables		**74,152**	75,003
Receipts in advance		**516,196**	455,896
Secured mortgage loan – due within one year		**3,446**	3,125
Tax payable		**23,362**	15,046
		624,215	556,179
Net current liabilities		**(88,295)**	(12,903)
Total assets less current liabilities		**315,033**	341,113
Capital and reserves			
Share capital		**67,945**	76,395
Reserves		**213,762**	228,852
Equity attributable to owners of the Company		**281,707**	305,247
Non-controlling interests		**7,034**	7,140
Total equity		**288,741**	312,387
Non-current liabilities			
Secured mortgage loan – due after one year		**13,191**	16,375
Deferred tax liabilities		**13,101**	12,351
		26,292	28,726
		315,033	341,113

Notes:

1. **BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS**

The Consolidated Financial Statements have been prepared on a going concern basis as at 30th September, 2018, as the directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the ability to generate funds internally.

2. **PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of the Consolidated Financial Statements are set out below:

Except as described below, in the current year, the Group adopted accounting policies in the consolidated financial statements that are consistent with those set out in the consolidated financial statements for the year ended 30th September, 2017.

Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

New and revised HKFRSs and interpretations in issued but not yet effective

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[2]

1 Effective for annual periods beginning on or after 1st January, 2018.

2 Effective for annual periods beginning on or after 1st January, 2019.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1st January, 2021.

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

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, financial assets 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. Financial assets that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- 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". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 30th September, 2018, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

Debt instruments classified as loans and receivables carried at amortised cost are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9.

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 costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, there would be no material impact on the accumulated amount of impairment loss to be recognised by the Group as at 1st October, 2018 as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

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. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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.

In 2016, the HKICPA issued classifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company have assessed the impact on application of HKFRS 15 in the future 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 the respective reporting periods.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Except as described above, the directors of the Company anticipate that the application of other new and revised and interpretations HKFRSs will have no material impact on the Group's financial performance and financial positions and/or the disclosures to the consolidated financial statements of the Group in foreseeable future.

3. TURNOVER AND SEGMENT INFORMATION

Information reported to the Company's executive directors, being the chief operating decision makers, in respect of the Group's business operating segments based on the said information for the purposes of resources allocation and performance assessment, under HKFRS 8 are therefore as follows:

(i) Retail segment – the retail sales of skincare products

(ii) Services segment – provision of services in beauty salons, spas, medical beauty centres and other businesses

The following is an analysis of the Group's turnover and results by operating segments for the year:

	Retail segment		**Services segment**		**Elimination**		**Consolidation**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales to external customers	**147,462**	140,527	**560,898**	504,304	**–**	–	**708,360**	644,831
Inter-segment sales	**22,803**	20,284	**–**	–	**(22,803)**	(20,284)	**–**	–
Total	**170,265**	160,811	**560,898**	504,304	**(22,803)**	(20,284)	**708,360**	644,831
Segment results	**39,936**	36,187	**147,878**	114,616	**–**	–	**187,814**	150,803
Other income							**8,575**	8,685
Other gains or losses							**2,524**	(1,482)
Finance costs							**(389)**	(455)
Central administrative costs							**(82,923)**	(71,830)
Profit before taxation							**115,601**	85,721

Segment results represent the profit earned by each segment without allocation of other income, other gains or losses, finance costs and central administrative costs (including directors' emoluments). This is the measure reported to the Company's executive directors for the purposes of the resources allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates at terms determined.

Geographical information

The Group's operations are located in Hong Kong, Macau and the People's Republic of China (the "PRC"). The PRC includes Mainland China but excludes Hong Kong and Macau.

The Group's turnover by geographical location is detailed below:

	2018	2017
	HK$'000	*HK$'000*
Hong Kong and Macau	**684,117**	621,060
The PRC	**24,243**	23,771
	708,360	644,831

4. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest expenses on secured mortgage loan	**389**	455

5. TAXATION

	2018	2017
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax	**18,152**	13,818
The PRC Enterprise Income Tax ("EIT")	**2,802**	1,917
Over provision in prior years	**(638)**	(337)
	20,316	15,398
Deferred taxation	**174**	999
	20,490	16,397

Hong Kong Profits Tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year after setting off available tax losses brought forward from prior years.

On 21st 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 28th March, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, the Hong Kong profits tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

The PRC EIT was calculated at the statutory income tax rate of 25% (2017: 25%) on the assessable profits.

Withholding tax has been imposed on dividends declared in respect of profits generated by companies established in the PRC. Deferred taxation has been provided for in respect of the undistributed profits from the Company's PRC subsidiaries accordingly.

Taxation on profits generated outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries/places in which the Group operates.

6. PROFIT FOR THE YEAR

	2018	2017
	HK$'000	*HK$'000*
Profit for the year is stated at after charging:		
Auditor's remuneration	**1,281**	1,230
Amortisation of intangible assets	**115**	115
Bank charges	**29,282**	27,054
Marketing expenses	**29,595**	18,450
Operating lease rentals in respect of land and buildings		
– minimum lease payments	**103,229**	104,990
– contingent rents	**3,397**	2,330
and after crediting:		
Interest income on bank deposits	**4,012**	2,498
Interest income on overdue rental income	**–**	409
Rental income from investment properties net of negligible direct operating expenses	**4,176**	5,296

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2018	2017
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share	**95,238**	69,331

	Number of shares	
	2018	2017
Weighted average number of ordinary shares for the purposes of basic earnings per share	**741,214,408**	763,952,764
Effect of dilutive potential ordinary shares – share options of the Company	**109,713**	345,050
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**741,324,121**	764,297,814

8. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Interim dividend declared and paid of 3.0 HK cents (2017: 4.0 HK cents) per share	**20,384**	30,558
Final dividend proposed after the end of the reporting period of 5.5 HK cents (2017: 4.0 HK cents) per share	**37,425**	30,618
	57,809	61,176

The 2018 final dividend of 5.5 HK cents (2017: 4.0 HK cents) per share, amounting to approximately HK$37,425,000 (2017: HK$30,618,000), has been proposed by the directors after the end of the reporting period and is subject to approval by the shareholders in the annual general meeting. This proposed dividend has not been recognised as a distribution during the year.

The aggregate amount of the dividends paid during the year ended 30th September, 2018 were approximately HK$51,002,000 (2017: HK$45,837,000).

9. TRADE RECEIVABLES

The Group generally allows its trade debtors' credit terms of 30 days to 120 days. The following is an aging analysis of trade receivables, presented based on the payment due dates, net of allowances for bad and doubtful debts, at the end of the reporting period:

	2018	2017
	HK$'000	*HK$'000*
0 to 30 days	**28,654**	28,026
61 days to 90 days	**–**	2
Over 120 days	**23**	59
	28,677	28,087

Movement in the allowance for trade receivables:

	2018	2017
	HK$'000	*HK$'000*
Balance at beginning and end of the year	**589**	589

10. TRADE PAYABLES

The following is an aging analysis of trade payables, presented based on the payment due dates, at the end of the reporting period:

	2018	2017
	HK$'000	*HK$'000*
0 to 30 days	**7,059**	7,109

The credit period on purchases of goods ranges from 30 days to 60 days. The Group has financial risk management policies in place to ensure that all these payables are within the credit time frame.

11. EVENT AFTER THE REPORTING PERIOD

There is no significant event after the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 30th September, 2018 ("the year"), the Group delivered a highly positive performance across almost all areas of its business segments, achieving near double digit growth in a host of categories. Profit for the year rose by 37.2% year on year, as customers continued to respond enthusiastically to the array of services and products offered by the Group, while customer numbers grew as new advertising channels and methods proved their value. These were achieved in the face of a relatively uncertain macro economic environment, and bear witness to the Group's strong management skills and deep expertise in the industry.

Overall turnover for the Group rose by 9.9% year-on-year, while its gross profit margin also lifted further to 92.4%, against 91.9% in 2017. As in previous years, this rise in gross profit margin reflected a further shift in the ratio of retail and service sales, with retail dropping to 20.8% from 21.8% a year earlier, and the higher-margin services segment rising to 79.2% (2017: 78.2%). Basic earnings per share for the year amounted to 12.8 HK cents (2017: 9.1 HK cents).

As always, the Group closely monitored rental costs and took steps where necessary to maintain profitability at its outlets. In the year, this involved closing one underperforming H2O+ outlet in Harbour City and relocating its Glycel Yuen Long outlet moved from Kolour to Yoho Mall, while its Macau Oasis Beauty Store was moved off-street and into a larger-sized space in a popular mall environment in late September 2018. Two new outlets were also opened during the year in popular upmarket shopping centres; a Glycel outlet in YATA Taipo, and another Glycel Skinspa in One Pacific Centre in Kwun Tong. As a result of these adjustments, at year-end the Group had a total of 55 outlets in operation, up from 54 at the same time last year.

These changes, together with an easing of the Hong Kong leasing market, enabled the Group to lower its overall rental costs by 0.9% compared to the previous year, as well as reducing their percentage to turnover to 17.8% (from 19.8% in 2017). Depreciation costs to turnover also fell year-on-year. Capital expenditure quadrupled from 2017 to 2018, with just slightly above half of the capex (HK$34.5 million) used for the purchase of a property in Yuen Long which previously the Group had rented, which the management believes will lower the rental costs. The remainder of the Group's capex was used partly for the renovation of existing beauty salons in order to keep the salons fresh and attractive, and partly for the purchase of advanced beauty therapy equipment (such as the PicoGenius and Scarlet-X equipment, etc.) for use in Oasis Medical Centres and other beauty salons within the Group, with the aim of bolstering its competitive edge.

This year, the Group significantly increased its marketing expenditure in order to fully promote its new range of Oasis Beauty and Oasis Medical Centre equipment. Marketing expenses also rose with the adoption of Christine Kuo as the new 'face' of the Glycel brand, along with the launch of a number of innovative new Glycel products and treatments that were given wide publicity across different media. Despite this, expressed as a percentage of turnover, marketing expenses only amounted to 4.2%, which is considered to be reasonable. The Group believes that its marketing spending has been very well targeted and is delivering maximum penetration for each dollar.

Staff costs rose by 5.4% year-on-year, although as a percentage of turnover they in fact fell to 42.5%, from 44.3% in 2017. The costs were in line with an increase in the overall number of staff, from 752 in 2017 to 764 in 2018. The extra staff have mainly been front-line staff, brought on board both to supply new outlets and in order to further enhance standards of service in existing outlets.

The Group's bank balances and cash reserves as at 30th September, 2018 amounted to approximately HK$376.6 million. Its current ratio was 0.9:1 and its debt-equity ratio was 5.8%. The board of directors has recommended the payment of a final dividend of 5.5 HK cents per share, bringing the full-year dividend to 8.5 HK cents per share (2017: 8.0 HK cents).

BUSINESS REVIEW

SERVICES

OASIS Portfolio

The Group operates a number of different but related beauty services under a single brand profile, the OASIS portfolio. These include its core beauty services businesses Oasis Beauty and Oasis Spa, together with its professional medical beauty specialist Oasis Medical Centre. Other smaller OASIS-branded business segments include Oasis Homme and Oasis Florist.

The major members of the OASIS family, Oasis Beauty, Oasis Spa, and Oasis Medical Centre, all continued to perform strongly and generated double digit growth in Hong Kong over the year. Leading the way was Oasis Beauty, which performed very strongly in Hong Kong, while also achieving satisfactory growth in the Group's three self-managed PRC outlets. Oasis Medical Centre also made significant gains on the back of its regular introduction of advanced beauty equipment sourced from global manufacturers.

During the year, the Group introduced a new mobile app for its Oasis Beauty services, which has proved very successful. Ongoing renovations of Oasis Beauty outlets throughout the year, and the introduction of new treatments and advanced beauty equipment, all helped cement customer loyalty and ensure a growing stream of customers.

At year-end, the Group was operating a total of 17 Oasis Beauty centres in Hong Kong (comprising 15 Oasis Beauty and 2 Oasis Homme outlets), together with three self-managed Oasis Beauty centres in Beijing. There were a further three high-end Oasis Spa centres in operation. Another Oasis Beauty Store in Macau continued to operate on a larger scale after relocation; this outlet now has treatment options that are helping to further expand its customer base.

Oasis Medical Centre

The Group continued to run six Oasis Medical Centres in Hong Kong during the year. Against 2017, they recorded a growth of 10.2% in turnover, and proved to be one of the Group's major growth drivers. Much of the growth came from the positive effects of constant upgrading of the medical equipment available to customers. In March 2018, exceptional new 'PicoGenius' equipment and treatments were introduced, expertly marketed under the brand face of popular local celebrity Joey Yung. In addition, new Scarlet-X equipment offering precisely targeted deep heat treatments for the skin for advanced firming and lifting was launched in December 2017, with good success.

Glycel

The Group's self-owned Glycel brand covers the provision of beauty treatment services under its Glycel 'Skinspa' brand, and related products. Sales growth of 8.7% was recorded for the year. The Glycel range has continued to appeal to Hong Kong consumers, and the Group has been systematically extending the products offered under this brand. The adoption of Christine Kuo as the brand face, in conjunction with the launch of new products such as 'The Line' series in October 2017 and the 'Red Water' series in April 2018, along with a new Deluxe Swiss Essentials Signature Treatment launched during the year, have together sustained the momentum of brand sales and helped establish Glycel firmly as a serious player in the competitive high-end skincare market. During the year, two new Glycel outlets were added, one at Tai Po and the other in Kwun Tong, bringing the total number of Glycel outlets to 15, with another in Macau.

RETAIL

Erno Laszlo

This historic brand, focusing on exclusive skincare options, achieved single-digit growth in sales during the year based on strong promotion and the steady introduction and marketing of new products. The number of Erno Laszlo outlets remained at five throughout the year, but a further outlet was opened after year end, in YATA Shatin.

Eurobeauté and DermaSynergy

The Group's Eurobeauté brand, products of which are mostly sold in spas and beauty centres, performed strongly over the year, riding on the increases for Oasis Beauty services. The DermaSynergy brand, meanwhile, also performed well. Products under this brand are an integral part of many of the Group's Oasis Medical Centre treatments, and are also sold at outlets directly to consumers.

H2O+

Following the closure of one underperforming H2O+ outlet in April, the number of outlets for this brand, for which the Group has distribution rights in Hong Kong, fell to four, with turnover falling proportionately.

Prospects

At a macro level, concerns around the China US trade war and the weakening stock market are expected to impact on the Hong Kong economy over coming months. However, the Group's efforts in recent times to strengthen its marketing efforts, expand its customer profile target, and enhance the technology used in its key services, has put it in a strong position in relation to macro-economic trends.

With its digital marketing efforts having proved very successful to date, the Group expects to maintain its focus on innovative digital marketing and continue directing resources into this sector. While traditional print and media advertising will be maintained, online marketing will become equally important in terms of the Group's overall profile and market presence. This is expected to be significant in generating more customer numbers, from an even wider social base.

Now contributing almost 80% of total sales, the Group's beauty services segment will remain the focus of overall business activities in the future. To maintain a highly competitive profile in the congested Hong Kong market, new beauty technologies and equipment will be imported regularly to address the full range of beauty needs of Hong Kong consumers. The Group has proven its ability to locate cutting-edge equipment and strategically adapt it for Hong Kong users, and this will continue to be an area in which the Group demonstrates its commitment to beauty excellence in the future.

The Group has been working to establish online presences for some of its products, including its own online-only brand O~KO!beauty offering high quality but lower-cost beauty products targeting younger users. Currently, the main route for these products is via Facebook, and results have been encouraging. At this stage, its efforts remain at early stages, and in the coming year further work will be done to build its online profile.

Recognising the increasing diversity of payment preferences, and the need to provide payment options for both in-store and online purchases, the Group has been expanding the payment tools it offers. In the second half of the year, WeChat Pay was introduced to supplement its existing payment options.

Looking ahead, recent turbulence in the stock market suggests that there may be some belt-tightening among consumers in the months to come. The Group will maintain its focus on maintaining business efficiency and spending prudently, leveraging its absence of debt and strong cash position. At the same time, the Group intends to continue its forward momentum in terms of sourcing new beauty equipment and products, upgrading its beauty service environments, and investing in targeted advertising in both old and new media to expand its public profile. These kinds of investments are already reaping positive rewards, as indicated by strong public response.

In summary, the Group's positive results for 2017/18 are a clear sign that its business strategies are on the right track. Its beauty services and products are successfully reaching a wide variety of consumers, and more of these than ever due to innovative new digital marketing strategies. Its sourcing and adoption of new technology is helping the Group establish a strong niche as a professional beauty services company. All along, its attention to customer care – as seen in the quality of its service staff, the comfort of its beauty treatment environments, the attractiveness of its retail stores, and the professionalism of its therapists and medical advisors – is a fundamental commitment that is never compromised. With these advantages, the Group is looking forward to another active and effective year ahead.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity and financial resources position continues to remain strong. Its cash and bank deposits as at 30th September, 2018 amounted to approximately HK$376.6 million (2017: HK$402.4 million). The Group generally finances its operation with internally generated resources.

As at 30th September, 2018, the gearing ratio, expressed as a percentage of the secured mortgage loan over total equity of approximately HK$288.7 million (2017: HK$312.4 million), was approximately 5.8% (2017: 6.2%).

The Group continues to follow the practice of prudent cash management. The Group has acceptable level of exposure on foreign currency fluctuations as most of its assets, receipts and payments are principally denominated in the functional currency of the relevant territories. The Group will continue to monitor its foreign exchange position and if necessary will hedge its foreign exchange exposure by entering forward foreign exchange contracts.

CONTINGENT LIABILITIES

The Group had no significant contingent liability as at 30th September, 2018.

CAPITAL COMMITMENTS

The Group had no significant capital commitments as at 30th September, 2018.

EMPLOYEES AND REMUNERATION POLICY

As at 30th September, 2018, the Group employed 764 staff (as at 30th September, 2017: 752 staff). The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses and share options may also be granted to eligible staff based on individual and Group performance. Other employee benefits include provident fund, insurance and medical cover, educational allowances and training programs.

The remuneration policy for the directors and our senior management members is based on their experience, level of responsibility, length of service and general market conditions. Any discretionary bonus and other merit payments are linked to the financial results of the Group and the individual performance of the directors and senior management members.

The Group is committed to nurturing a learning culture in the organisation. Heavy emphasis is placed on training and development, as the Group's success is dependent on the effort of a skilled and motivated work force.

FINAL DIVIDEND

The Board has proposed a final dividend of 5.5 HK cents per share for the year ended 30th September, 2018. The proposed final dividend, if approved at the forthcoming annual general meeting (the "AGM"), will be dispatched to the shareholders whose names appear on the register of members of the Company (the "Register of Members") at the close of business on Friday, 1st March, 2019.

CLOSURE OF REGISTER OF MEMBERS

(i) For determining the entitlement to attend and vote at the AGM, the Register of Members will be closed from Tuesday, 19th February, 2019 to Friday, 22nd February, 2019, both days inclusive. During this period, no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Standard Limited, whose share registration public offices are located at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 18th February, 2019.

(ii) For determining the entitlement of the proposed final dividend, the Register of Members will be closed on Thursday, 28th February, 2019 and Friday, 1st March, 2019, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Standard Limited, whose share registration public offices are located at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 27th February, 2019. The relevant dividend warrants will be dispatched to shareholders on Tuesday, 12th March, 2019.

AUDIT COMMITTEE

The Company's Audit Committee comprises Prof. Wong Lung Tak, Patrick, Mr. Wong Chun Nam, Duffy and Dr. Wong Chi Keung who are the independent non-executive directors of the Company.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the audited Consolidated Financial Statements of the Group for the year ended 30th September, 2018 with management and discussed with the independent auditor on auditing, internal control and financial reporting matters in respect of the Consolidated Financial Statements.

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

During the year ended 30th September, 2018, the Company bought back 88,000,000 shares for cancellation on 20th June, 2018 pursuant to a conditional cash offer which was made by Yu Ming Investment Management Limited on behalf of the Company in compliance with the Codes on Takeovers and Mergers and Share Buy-backs to buy back for cancellation up to the maximum number of shares, being 88,000,000 shares of the Company at the offer price of HK$0.80 per share. Save as aforesaid, the Company did not redeem any of the listed securities of the Company nor did the Company or its subsidiaries purchase or sell any such securities during the year ended 30th September, 2018.

Neither the Company nor its subsidiaries had issued or granted any convertible securities, options, warrants or similar rights or exercised any rights in relation to convertible securities, options, warrants or similar rights during the year ended 30th September, 2018.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 30th September, 2018.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following a specific enquiry by the Company, each of the directors confirmed that he/she complied with the Model Code for transactions in the Company's securities throughout the year ended 30th September, 2018.

The Company has also adopted a code of conduct governing securities transactions by employees who may possess or have access to the inside information.

PUBLICATION OF INFORMATION ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY

The results announcement is required to be published on the website of Hong Kong Exchanges and Clearing Limited (the "HKEx") at www.hkexnews.hk and the designated website of the Company at www.wateroasis.com.hk respectively. The annual report of the Company for the year ended 30th September, 2018 will be dispatched to the shareholders and published on the HKEx's and the Company's websites in due course.

By Order of the Board
WATER OASIS GROUP LIMITED
Yu Kam Shui, Erastus
Executive Director

Hong Kong, 14th December, 2018

As at the date of this announcement, the executive directors of the Company are Mr. Yu Kam Shui, Erastus, Mr. Tam Chie Sang, 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.