



DRAGON GROUP INTERNATIONAL LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 199306761C)

EMPHASIS OF MATTER BY INDEPENDENT AUDITORS ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

In compliance with Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the board of directors of Dragon Group International Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce that its independent auditors, Ernst & Young LLP (the “**Auditors**”), have included an emphasis of matter with respect to the material uncertainty related to going concern in their report (the “**Independent Auditor’s Report**”) on the financial statements of the Group for the financial year ended 31 December 2017 (“**FY2017**”) (the “**Financial Statements**”).

The opinion of the Auditors however remains unqualified.

An extract of the Independent Auditor’s Report together with the relevant note to the Financial Statements is annexed to this announcement.

Shareholders of the Company are advised to read the Financial Statements which will be dispatched to them in due course as part of the Company’s Annual report for FY2017.

By Order of the Board

Dato’ Michael Loh Soon Gnee
Executive Chairman & Chief Executive Officer
Dragon Group International Limited
9 April 2018

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2017

Independent Auditor's Report to the Members of Dragon Group International Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Dragon Group International Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the statements of financial position of the Group and the Company as at 31 December 2017, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, and the balance statement of financial position and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.1 in the financial statements. The Group incurred a net loss of US\$8,209,000 during the year ended 31 December 2017, and as of that date, the Group's current liabilities and total liabilities exceeded its current assets and total assets by US\$6,053,000 and US\$2,124,000 respectively. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. The ability of the Group to continue as a going concern is dependent on the continued financial support from ASTI Holdings Limited, a substantial shareholder of the Group, to meet the Group's future cash obligations as and when they fall due. ASTI Holdings Limited has also undertaken to not recall the amounts due to itself for the next twelve months from the date the financial statements are authorised for issuance.

If the Group is unable to continue in operational existence for the foreseeable future, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheets. In addition, the Group may have to reclassify certain non-current assets and liabilities as current assets and liabilities respectively. No such adjustments have been made to these financial statements. Our opinion is not qualified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2017

Independent Auditor's Report to the Members of Dragon Group International Limited

Key Audit Matters (cont'd)

1. Assessment for impairment of construction-in-progress

The Group is constructing a replica of the Dragon Treasure Boat in the People's Republic of China as part of a commercial project with another Chinese shareholder of Nanjing DTB Development Co., Ltd ("Nanjing DTB"), a subsidiary of the Group. As stated in Note 13(a), an impairment charge of US\$2,642,000 was recognised on the construction-in-progress for the year ended 31 December 2017.

This area was significant to our audit due to the magnitude of the carrying amount and management's judgement involved in the impairment assessment. Our audit procedures included, amongst others, evaluating and assessing the facts and circumstances of the suspension of the construction, and rationale provided by management to support the impairment charge in view of the uncertainty surrounding the boat project, as well as evaluating and assessing the key assumptions and methodology used by management in the cash flow forecast, and discussing with management on the availability of other viable options to determine the reasonableness of the impairment charge. Management's explanation on the impairment assessment and the related disclosure are included Note 13(a).

Other Information

Management is responsible for other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Directors' responsibilities include overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2017

Independent Auditor's Report to the Members of Dragon Group International Limited

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2017

Independent Auditor's Report to the Members of Dragon Group International Limited

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Simon Yeo.

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

3 April 2018

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

1. Corporate information

Dragon Group International Limited (the “Company”) is a limited liability company which is domiciled and incorporated in Singapore and listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”). The immediate and ultimate holding company is ASTI Holdings Limited (“ASTI”), also incorporated in Singapore.

The registered office of the Company is located at 1 Robinson Road, #18-00 AIA Tower, Singapore 048542.

The principal place of business is located at Block 25, Kallang Avenue, #06-01, Kallang Basin Industrial Estate, Singapore 339416.

The principal activities of the Company are those of investment holding and acting as corporate manager and advisor in relation to the administration and organisation of the businesses of its subsidiary companies.

Details of the significant subsidiary companies and their principal activities are included in Note 4.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”).

The financial statements have been prepared on the historical cost basis, except as disclosed in the accounting policies below.

The financial statements are presented in United States Dollars (“USD” or “US\$”), which is the functional currency of the Company. All values in the tables are rounded to the nearest thousand (“US\$’000”) except when otherwise indicated.

Going concern uncertainty

The Group incurred a net loss of US\$8,209,000 (2016: US\$6,744,000) during the financial year ended 31 December 2017 and as at that date, the Group’s current liabilities and total liabilities exceeded its current assets and total assets by US\$6,053,000 and US\$2,124,000 respectively. In FY2016, the Group reported a net current assets of US\$1,536,000 and net assets of US\$6,463,000 respectively. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern. These financial statements have been prepared on a going concern basis as the holding company has agreed to not recall the amounts due to itself for the next twelve months from the date the financial statements are authorised for issuance and provide continuing financial support to enable the Group to continue as a going concern.

If the Group is unable to continue in operational existence for the foreseeable future, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In addition, the Group may have to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements.

Convergence with International Financial Reporting Standards

For annual financial period beginning on or after 1 January 2018, Singapore-incorporated companies listed on the Singapore Exchange will apply Singapore Financial Reporting Framework (International) (“SFRS(I)”), a new financial reporting framework identical to International Financial Reporting Standards. The Group will adopt SFRS(I) on 1 January 2018.

The Group has performed an assessment of the impact of SFRS(I). On transition to SFRS(I), the Group expects to elect the option to deem cumulative translation differences for foreign operations to be zero on 1 January 2017, and accordingly, the gain or loss that will be recognised on a subsequent disposal of the foreign operations will exclude cumulative translation differences that arose before 1 January 2017. The Group expects to reclassify an amount of US\$1,121,000 of foreign currency translation reserve to the opening retained earnings as at 1 January 2017. Other than the effects of the matter as described above, the Group expects that adoption of SFRS(I) will have no material impact on the financial statements in the year of initial application.