



DRAGON GROUP INTERNATIONAL LIMITED

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

ANNOUNCEMENT

THE PROPOSED ACQUISITION OF 113,201 ISSUED AND PAID UP ORDINARY SHARES IN THE SHARE CAPITAL OF HEAT TECH JAPAN CO., LTD.

1. INTRODUCTION

- 1.1 The board of directors (the "**Board**") of Dragon Group International Limited (the "**Company**") and together with its subsidiaries, collectively the "**Group**") wishes to announce that the Company had on 5 January 2015 entered into a conditional sale and purchase agreement (the "**SPA**") with Green Power Ventures Limited (the "**Vendor**") (together with the Company, the "**Parties**") for the proposed acquisition (the "**Proposed Acquisition**") by the Company of 113,201 issued and paid up ordinary shares in the share capital of Heat Tech Japan Co., Ltd ("**HTJ**") (the "**Sale Shares**"), which comprises approximately 30% of HTJ's total issued and paid up share capital.
- 1.2 The Proposed Acquisition will be effected via the purchase of the Sale Shares for a sum of S\$6,000,000 (approximately US\$4,535,000), of which S\$2,000,000 (approximately US\$1,512,000) shall be paid in cash and another 40,000,000 Company shares (the "**Consideration Shares**") shall be issued at S\$0.10 (approximately US\$0.076) per Consideration Share. The completion date of the Proposed Acquisition (the "**Completion Date**") shall be five (5) business days after the various conditions precedent in the SPA have been fulfilled or such other date as the Parties may otherwise agree (the "**Completion**").
- 1.3 As the figure computed under Rule 1006(c) of the listing manual (the "**Listing Manual**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") exceeds 20%, the Proposed Acquisition is considered a major transaction under Chapter 10 of the Listing Manual. Please see paragraph 2.6.2 below for further details on the computation of the relative figures under Rule 1006 of the Listing Manual. Accordingly, the Proposed Acquisition is subject to the approval of the shareholders of the Company (the "**Shareholders**") at an extraordinary general meeting (the "**EGM**") of the Shareholders to be convened. A circular will be despatched to the Shareholders in due course.

2. THE PROPOSED ACQUISITION AS A MAJOR TRANSACTION

2.1 Information on HTJ

HTJ is a private company limited by shares incorporated in Japan and having its registered office at 2259-9 Obuchi, Fuji, Shizuoka, Japan 417-0801. As at the date of this announcement, HTJ has an issued and paid-up share capital of JPY188,718,500 (approximately US\$1,567,429) comprising 377,337 ordinary shares.

HTJ's business is as follows:

- (i) manufacturing and distribution of chemical product in relation to ceramics and carbon;
- (ii) manufacturing and distribution of non-metal compound of ceramics and carbon;
- (iii) development and manufacturing, distribution of the products which uses the items set out in (a) and (b) as heat dissipation materials;
- (iv) distribution of information and technology in relation to each of the above items,
- (v) manufacturing and distribution of wind power generation equipment and other equipment in relation to environment and energy; and
- (vi) all operations incidental to each preceding item.

Based on the latest available unaudited financial statements of HTJ as at 30 September 2014, the net asset value and net tangible asset value of HTJ is approximately US\$3,248,000 and US\$1,674,000 respectively. Accordingly, the net asset value and the net tangible asset value attributable to the Sale Shares is approximately US\$974,000 and US\$502,000 respectively.

2.2 Information on the Vendor

As at the date of the SPA and this announcement, the Vendor is an investment holding company incorporated in the British Virgin Islands. The Vendor holds approximately 73.47% of the shareholding interest in HTJ as at the date of this announcement.

2.3 Consideration for the Proposed Acquisition

2.3.1 The consideration for the sale and purchase of the Sale Shares shall be the sum of S\$6,000,000 (approximately US\$4,535,000). The consideration was negotiated at arms-length and arrived at on a willing seller willing buyer basis, taking into account a number of factors including, *inter alia*:-

- (i) the net book value represented by the Sale Shares; and
- (ii) the intellectual property owned by HTJ.

2.3.2 The Consideration shall be split as follows:

- (i) S\$2,000,000 (approximately US\$1,512,000) in cash paid into the Vendor's designated bank account at Completion; and
- (ii) 40,000,000 Consideration Shares placed to the Vendor at Completion.

2.4 Salient Terms of the SPA

2.4.1 Conditions Precedent

The Completion of the Proposed Acquisition is conditional upon, *inter alia*, the following matters being fulfilled or done on or prior to the Completion Date:-

- (i) the approval of the board of directors of each Party for the entering into of the SPA and any transactions contemplated by the SPA and other related transactions as may be required in relation thereto;
- (ii) sufficient funding being raised by the Company for the acquisition of the Sale Shares and the determination of what constitutes sufficient funding shall be at the absolute discretion of the Company;
- (iii) the approval of the respective shareholders of the Parties (where applicable) being obtained for the completion of the acquisition of the Sale Shares and any other applicable transactions for this purpose;
- (iv) the Company being satisfied (at its absolute discretion) with the results of the legal, financial and business due diligence conducted on, *inter alia*, HTJ;
- (v) the receipt by the Company of such waivers or consents as may be necessary to enable the Company and/or its nominee(s) to be registered as holder of any and all of the Sale Shares;
- (vi) all applicable governmental or regulatory approvals being obtained for the sale of the Sale Shares to the Company prior to Completion;
- (vii) the execution of service agreements for the key management of HTJ on terms acceptable to the Company;
- (viii) all necessary consents from banks and other financial institutions which had provided facilities to HTJ prior to the Completion Date and from all other relevant persons, for the sale of the Sale Shares to the Company being obtained, and not withdrawn or amended, on or before the Completion Date;
- (ix) there being no material adverse change in, *inter alia*, HTJ's prospects, business, operations, assets, liabilities, or condition (financial or otherwise) since 31 March 2014;
- (x) there being no material breach of any of, *inter alia*, the Vendor's warranties, covenants and undertakings under the SPA; and
- (xi) all other consents and approvals required under any and all applicable laws for the sale of the Sale Shares and to give effect to the transactions contemplated in the SPA (including without limitation, such waivers as may be necessary of terms which would otherwise constitute a default under any instrument, contract, document or agreement to which, *inter alia*, the Vendor or HTJ is a party or by which the Vendor or HTJ or its or their respective assets are bound) being obtained and where any consent or approval is subject to conditions, such conditions being satisfactory to the Company in its sole and absolute discretion.

2.4.2 Options

The Company has also been granted, *inter alia*, the following options in relation to HTJ and another company, 3DOM Inc. ("**3DOM**"), which is in the business of development, manufacturing and distribution of separators for batteries:

- (i) the Company shall be granted an option to purchase, at its absolute discretion, an additional 138,369 HTJ Shares legally and beneficially owned by the Vendor (the "**HTJ Option Shares**"), representing 36.67% of the total issued and paid-up share capital of HTJ, which would bring the Company's total shareholding in HTJ to 66.67% of its total issued and paid up share capital and 40,000 3DOM Shares legally and beneficially owned by the Vendor (the "**3DOM Option Shares**") (the HTJ Option Shares and the 3DOM Option Shares collectively referred to as the "**Option Shares**"), representing 20% of the total issued and paid-up share capital of 3DOM at any date between the Completion Date to the date falling 12 calendar months after the Completion Date, subject to similar conditions precedent as set out in paragraph 2.4.1 above being met. The Company shall be entitled to exercise this option by giving the Vendor at least three (3) days prior written notice of its intention to do so;
- (ii) the terms of the option shall be mutually agreed within 30 days of the option exercise date (the "**Option Exercise Date**") provided always that:
 - (a) the consideration for the Option Shares shall not exceed S\$23 million (approximately US\$17.4 million) and shall be based on, *inter alia*, the performance of HTJ and 3DOM as at the Option Exercise Date, the value of the intellectual property owned by HTJ and 3DOM as at the Option Exercise Date and any other factors as may be deemed appropriate by the Company;
 - (b) the consideration for the Option Shares shall be a mix of cash and the Company's Shares (to be priced at the higher of S\$0.10 per Company share or 90% of the Company's share price at the Option Exercise Date based on a 30-day weighted average of the Company's trading price on the SGX-ST), such mix to be at the Company's absolute discretion;
 - (c) S\$4 million (approximately US\$3.0 million) worth of the Company's shares to be paid in relation to the Option shall only be paid out if HTJ is able to record a minimum profit before tax of US\$8 million during any rolling 12-month period before the end of its 2016 financial year and, in the event this target is not met, it is agreed between the Parties that there shall not be any requirement to pay out such shares as consideration for the Option Shares; and
 - (d) the terms and obligations in the SPA in respect of the Sale Shares shall apply *mutatis mutandis* to the Option.
- (iii) The Vendor also agrees that the Company shall be granted the following additional options in the event there has been a material breach of the SPA (and, if capable of remedy, such breach is not remedied within fourteen (14) days of such a breach occurring) after Completion but prior to the completion of the purchaser of the Option Shares (or expiry of such option):
 - (a) purchase the Option Shares for a consideration of US\$1 million; or
 - (b) sell the Sale Shares to the Vendor for a consideration of US\$21.6 million.

2.5 Source of Funds for the Proposed Acquisition

The Company shall use its own internal source of funds for the purpose of the Proposed Acquisition.

2.6 Financial Effects of the Proposed Acquisition

2.6.1 Illustrative effects of the Proposed Acquisition on the net tangible asset and loss per share of the Group

For illustrative purposes only, the pro forma financial effects of the Proposed Acquisition on the net tangible asset (the "NTA") per share of the Group ("Share") and the loss per Share ("LPS") based on the latest audited consolidated financial statements of the Group for the year ended 31 December 2013 ("FY2013") are as follows:-

(a) Effect on NTA per Share

For illustrative purposes only, had the Proposed Acquisition taken place on 31 December 2013 and based on the latest audited consolidated financial statements of the Group as at 31 December 2013, the Proposed Acquisition would have had the following impact on the Group's NTA as at 31 December 2013:-

FY2013	Before the Proposed Acquisition	After the Proposed Acquisition
NTA ⁽¹⁾ (US\$'000)	28,013	31,036
Number of issued shares ('000)	320,167	360,167
NTA per share (US\$ cents)	8.75	8.62

(1) NTA is computed based on total assets less total liabilities less intangible assets.

(b) Effect on LPS

For illustrative purposes only, had the Proposed Acquisition taken place on 1 January 2013 and based on the latest audited consolidated financial statements of the Group for FY2013, the Proposed Acquisition would have had the following impact on the Group's LPS for FY2013:-

FY2013	Before the Proposed Acquisition	After the Proposed Acquisition
Losses attributable to equity holders of the Company (US\$'000)	8,700	8,762
Weighted average number of issued shares ('000)	314,517	354,517
LPS (US\$ cents)	2.77	2.47

2.6.2 Relative Figures Computed⁽¹⁾ on the Bases Set Out in Rule 1006 of the Listing Manual

Rule 1006(a)	Net asset value of the assets to be disposed of, compared with the group's net asset value	Not applicable to acquisition of assets
Rule 1006(b)	Net losses attributable to the assets acquired or disposed of, compared with the group's net losses	3.73%
Rule 1006(c)	Aggregate value of the consideration given or received, compared with the Company's market capitalisation ⁽²⁾ based on the total number of issued shares excluding treasury shares	32.59%
Rule 1006(d)	Number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	12.49%
Rule 1006(e)	Aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and probable reserves	Not applicable

Note(s):-

(1) The figures computed here are based on the results for the financial period ended 30 September 2014 which was announced on 13 November 2014.

(2) Using the weighted average market price on 2 January 2015, being the market day immediately preceding the date of the Agreement, the Group's market capitalization calculated based on the total number of issued shares excluding treasury shares is approximately US\$13.9 million.

As the figure calculated under Rule 1006 (c) of the Listing Manual is more than 20%, the Proposed Acquisition is considered a major transaction under Chapter 10 of the Listing Manual, and is therefore subject to Shareholders' approval.

2.7 Rationale for the Proposed Acquisition

The Proposed Acquisition allows the Company to invest in a company that has developed intellectual property in the field of heat dissipating materials, which have a wide range of applications. Such intellectual property has the potential to be commercialised with further research and development work and marketing efforts. If successful, HTJ would be in a position to generate revenue and potentially profits for the Group and this would be desirable for the Company's shareholders.

3. DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS

None of the Directors or controlling shareholders of the Company has any interest, direct or indirect, in the Proposed Acquisition.

4. DETAILS OF ANY SERVICE CONTRACTS

No person is proposed to be appointed as a Director in connection with the Proposed Acquisition. Accordingly no service contract is proposed to be entered into between the Company and any such person.

5. EXTRAORDINARY GENERAL MEETING ("EGM") AND CIRCULAR

As set out in paragraph 2.6.2 of this announcement above, the figure calculated under Rule 1006(c) of the Listing Manual is more than 20%. Pursuant to Rule 1014 of the Listing Manual, the Company has to obtain Shareholders' approval for the Proposed Acquisition. A circular containing further details on the Proposed Acquisition and enclosing a notice of EGM in connection therewith will be despatched to the Shareholders in due course.

6. DOCUMENT AVAILABLE FOR INSPECTION

A copy of the SPA will be made available for inspection during normal business hours at the Company's registered office at 25 Kallang Avenue #06-01, Kallang Basin Industrial Estate, Singapore 339416 for a period of three (3) months commencing from the date of this announcement.

Shareholders and potential investors should note that the Proposed Acquisition is subject to the fulfilment of, *inter alia*, the conditions precedent set out above and accordingly should exercise caution when trading in the shares of the Company. Persons who are in doubt as to the action they should take should consult their legal, financial, tax or other professional advisers.

BY ORDER OF THE BOARD

Dato' Michael Loh Soon Gnee
Executive Chairman & Group CEO
5 January 2015