



23 December 2013

DGI EXERCISES OPTION TO PURCHASE CLOUD BASED ONLINE EDUCATION COMPANY

HIGHLIGHTS

- **DGI has exercised the option to acquire Online Education Company – iCollege Pty Ltd**
- **Consideration for exercise 100% share based with significant performance milestones**
- **Business spin out from profitable and existing online education enterprise**
- **Includes intellectual property, exclusive perpetual licence to a cloud based software platform, education courses and large domain footprint**
- **Highly experienced management team**
- **Significant upside exists with existing content providers using iCollege's proven cloud based delivery platform**

DGI Holdings Ltd (ASX:DGI) ("DGI" or "the Company") is pleased to announce that it has exercised the option to purchase 100% of the issued capital of iCollege Pty Ltd ("iCollege") following the completion of its due diligence review.

The consideration for the acquisition of iCollege is 250 million shares and attaching options in DGI plus further shares and options based on performance hurdles. The details of the consideration and hurdles are set out below.

iCollege is a spin out of a profitable existing online education business using a proven cloud based software platform to deliver self paced career and professional development courses worldwide.

The online education market is becoming one of the faster growing industries in the world. The ability to offer education online is scalable.

The iCollege Business

iCollege is a business developed by Victor Hawkins, a management consultant and business owner for the past 20 years, and who has spent the past 5 years successfully owning and operating a cloud based software platform selling other online education courses. It is this platform that is the subject of a perpetual exclusive licence to iCollege.



iCollege has acquired a significant number of purpose driven online domain names, and the highly prized root domain name "icollge". These domains along with the cloud based online software platform and already developed courses are the key intellectual property assets that will develop a successful business. In addition, an experienced team of developers has been recruited to operate the business.

The existing business is accredited as a registered training organisation with the Australian Government and is audited regularly. Based on Victor's past operating experience in his existing business, where he has consistently achieved EBITDA of approximately 50% per annum of sales revenue, he is confident he will develop the new business on a similar basis with access to capital.

Upon completion of the transaction, Victor will be appointed Managing Director of the Company to create the online education business initially marketing 21 courses over 12 months that have been hand selected by Victor, rebranded and designed based on their popularity worldwide.

The courses that are intended to be marketed will include:

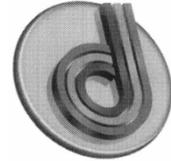
1. Management.
2. Coaching.
3. Project Management.
4. Counselling.
5. Business.
6. Marketing.
7. Leadership.
8. Entrepreneurship.
9. Customer Service.
10. Sales.

The platform is an online cloud based technology that was created and designed by Victor based on his research and development over 5 years. The platform is scalable and new courses and new countries can be added to the platform at minimal cost and very quickly. The platform also offers various growth opportunities including online apps and online education for companies that presently run off line courses.

The other advantages of the platform include:

1. The dashboard provides details of all 4 stakeholders, being the student, administrator, trainer and management.
2. The main key performance indicator's of each stakeholder is easily viewed on the dashboard.
3. The platform can be executed by a small number of employees due to its functionality.
4. The system is fully automated.

There are four types of logins: Administrator, Management, Trainer and Student. Each login comes with its own menu system and access levels. The first view is for the Administrator.



The administrator has clarity over all aspects of a student's profile, including courses enrolled in and academic history. From this view you can manage all their payments and communicate directly with the students via email. The system also tracks all student enrolments and payments as a whole on a day by day basis, forming part of the KPIs monitored.

The student view has an eShop view. This is where you can purchase products as well as enrol in different courses and workshops. "My courses" and "Lessons" break down all the courses enrolled, the status to completion and the actual lessons themselves. There are also interactive communication opportunities with trainers including the provision of support in completing the work.

The trainers have a macro and micro view of the courses and the students workflow. The system generates notification emails automatically when students complete work and when marked by a trainer, which makes the system very efficient.

There is an automated function for emailing of questions from students and the trainers responses. Finally there is system generated reporting on markings completed in date ranges on courses which assists the Administrator of the business in managing the cash flow.

Growth in Online Education

The growth in online education is being driven by the following factors:

- Online education is one of the fastest growing industries.
- Demand from customers wanting the flexibility of online training.
- Increase in Gen X and Y heading back to school to up-skill, re-skill and pursue personal interests in a more structured and organised manner.
- People are more aware of adding value to what they can offer an employer in order to boost their promotion prospects and secure their job.
- Online education is still in its infancy, and the number of courses offered in fields beyond IT is certain to grow in the coming years, as more providers seek to adapt programs to fit the virtual format and existing providers expand their offering to increase the variety of online courses.
- iCollege's automated business model enables a significant increase in course offerings before additional overheads are required. This low overhead cost model enables iCollege to be price competitive and seek to achieve a high margin.
- Competition exists in the various courses, however, management believe their competitors do not have such a sophisticated automated system as iCollege.
- Industry Issues/Regulations – the online education industry in Australia does not require a registered training organisation ("RTO") certificate.



- Quality and reputation – as online education is relatively new, quality and provider reputation is vital. Mr Hawkins has this in place.
- Price – some providers market online education as the lower-cost alternative, however, the exception to this is the business school market, where price may be taken as a sign of quality.
- Economic conditions – in difficult times, companies may seek to reduce spending on items that are viewed as non-essential. However, demand from the individual is likely to increase as they seek to up-skill to become more employable.
- The pace of change – an increase in the pace of technological improvements or changes to business regulations can translate to increased demand for online professional development courses and IT courses which is why there has been significant growth in demand for short courses that update skills.
- Change in structure of workforce – demand for online education has been aided by the desire of working adults to retrain or up-skill for career change.
- International Trade - online education removes physical boundaries to service provision, which means that courses can be taken from anywhere in the world.
- Industry Globalisation - the online education industry has high potential for globalisation, as the online course delivery removes the national boundaries and allows competition at a global level.

The Education Tiers

The education market is broken in to the following Macro Market segments:

- University;
- Pathways to University;
- Vocational Accredited;
- Vocational Non-Accredited;
- High School;
- Primary School; and
- Pre-Primary.

iCollege has a primary focus on the vocational non accredited sector as it is the most globally scalable of the education sectors with 40 English speaking countries with a combined population of over 1.5 billion.

Australian Competitors

The three large players in this relatively young industry are: Open Universities Australia, SEEK Learning and Kaplan Professional.



Kaplan Professional – Kaplan Professional offers financial services education and is one of four businesses run by Kaplan (a subsidiary of the Washington Post) in Australia. Kaplan Professional offers accredited educational modules in financial services, real estate, tax and accounting. They also offer customised training and public education courses which can be delivered in-house at the business premises (online Education in Australia, June 2011 IBISWORLD).

SEEK Ltd – Seek is a publicly listed company founded in 1997, which runs the well known job search website and an expanding education and training business. SEEK has established a position within the Online Education industry through its SEEK Learning operation and ownership of colleges under Think: Education Group Pty Ltd (Online Education in Australia, June 2011 IBISWORLD).

Agreement

As part of the due diligence process, some terms of the existing option agreement have been varied.

The key terms of the acquisition are now as follows:

1. The consideration is the issue of 250m ordinary fully paid shares with attaching 1 for 2 options (exercise price of minimum 20 cents each (post consolidation) and expiry date of 5 years) in DGI to the shareholders of iCollege.
2. As further consideration, DGI will issue performance shares (subject to the receipt of appropriate shareholder and ASX approvals) as follows:
 - (a) Performance Tranche 1 – 50m ordinary shares when sales revenue reaches \$1.0 million within 2 years;
 - (b) Performance Tranche 2 – 50m ordinary shares when EBITDA reaches \$500,000 within 2 years; and
 - (c) Performance Tranche 3 – 50m ordinary shares when EBITDA reaches \$2.5m within 3 years.
 - (d) For each tranche of shares issued, the Company has agreed to grant a 1 for 1 attaching option (exercise price of minimum 20 cents each (post consolidation) and expiry date of 5 years).

The completion of the transaction is subject to DGI shareholder approval and a number of other matters including a capital raising (sufficient to apply for reinstatement), compliance with Chapters 1 and 2 of the ASX Listing Rules and approval for re-admission to the official list of ASX.

At this time, and as part of the shareholder approval process, DGI will change its name to iCollege Limited. Mr Victor Hawkins will be appointed as the Managing Director on completion, and Mr Phil Re will be appointed as a non-executive director. There will be a need to appoint another non-executive director, as the existing board will resign at this time. That new non-executive director has not yet been identified.



DGI will also undergo a capital consolidation after the exercise of the option is approved by DGI shareholders and will raise additional capital of at least \$2,500,000 from the public via a prospectus. This will provide cash reserves in excess of \$3 million. The ratio of the reconstruction will be determined at that time that the Notice of Meeting is approved by ASX.

Funds (net of costs) raised from the capital raising will be used for working capital purposes, development and marketing of the new education courses, platform development and web and SEO optimisation.

The corporate advisory fee of 60 million options with an exercise price of 1 cent each with 5 years expiry for introducing the transaction, structuring and corporate advisory services has been agreed to be cancelled.

Placement

As set out in the earlier announcement, DGI will complete a placement of 50,000,000 shares at 0.5 cents. These shares will now have an attaching 1 for 1 option (2 cent exercise price with a 5 year expiry – previously the exercise price was to be 1 cent) to raise \$250,000 (1,500,000 shares and all attaching 1 for 1 options will be subject to shareholder approval). These shares and options will initially be unquoted.

The funds raised will be used to re-imburse the option fee (\$75,000), to assess the business, operations and prospects of iCollege for due diligence purposes (estimate of \$35,000) and as working capital for the existing DGI business specific to research and development and intellectual property costs (\$50,000 estimate for a 4 month period). As the option has been exercised, the balance of the funds (\$90,000 based on the estimates) will be used to prepare the notice of meeting, prospectus and associated reports and outgoings.

Effect on Annual Revenue and Annual Profit

The current business operations of DGI only generate modest revenues and the operations are presently making losses.

The Board of DGI are very excited by the proposed transaction and look forward to seeking to increase shareholder value in a fast growing and profitable business sector with experienced operators. At this stage, the new business is in start up mode, and accordingly the Board is unable to forecast the effect on annual revenue or profit.

Capital Structure

The capital structure of DGI and the balance sheet on a pro forma basis is as set out in Schedule 1 and 2.

Estimated Timetable

The transaction is expected to be completed by the end of February 2014.

It is anticipated that the Notice of Meeting can be prepared and dispatched within the coming weeks. An indicative timeline is set out below:

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Despatch of Notice of Meeting – 13 January 2014
Lodge Prospectus with the ASIC – 24 January 2014
Meeting of Shareholders to approve the transaction – 12 February 2014*
Complete capital raising and settle transaction – 26 February 2014
Re-instatement to trading on ASX – 28 February 2014

*The Company will be suspended from trading pre-open on the date of the meeting of Shareholders to approve the transaction and will be re-instated following full compliance with Chapters 1 and 2 of the ASX Listing Rules.

It should be noted that this timeline does not include details on the consolidation timeline, which will be included in the Notice of Meeting sent to shareholders, following the notice being sent to ASX for clearance.

For further information contact:

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About DGI Holdings Ltd

DGI Holdings Ltd's principal business activity is the research, development and marketing of innovative miniature projection technologies and products. DGI is continuing to explore the potential that it holds via its intellectual property portfolio and plans to also consider other forms of projection units and integrated systems that it can bring to market in a competitive manner.

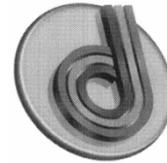
DGI has maintained its retained patent database and is in negotiations in order to potentially incorporate new and updated technologies. The Company is also in early discussions with mini projector manufacturers in China regarding the manufacture and/or distribution of products in various markets. Some of the technologies employed in these devices are ready-to-go (RTG) which means they can be brought to market quickly for immediate potential revenue for DGI. The market for mini and pico projectors has developed further and the potential for onboard devices is becoming increasingly important.

DGI is also considering refining some of its other product ranges and is currently focusing some effort on the 'Media Chair' category. Whilst it holds patents for technology that can be integrated into various items of furniture, it is of the belief that the Media Chair category presents some unique and identifiable opportunities that can be capitalised on. DGI is in early discussions with component manufacturers to provide the end user and gamer with a hi-tech and comfortable platform for individual activities.

The Company has set up a special purpose website as a trial site for the sale of certain of its products and is reviewing other sale opportunities.

Caution Regarding Forward Looking Information

This announcement contains forward looking statements. Forward looking statements are not statements of historical fact and actual events and results may differ materially from those described in the forward looking statements as a result of a variety of risks, uncertainties and other factors. Forward looking statements are inherently subject to business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward looking information provided by the Company, or on behalf of, the Company. Forward looking statements in this announcement are based on the Company's beliefs, opinions and estimates of the Company as of the dates the forward looking statements are made, and no obligation is assumed to update forward looking statements if these beliefs, opinions and estimates should change or to reflect other future developments. Circumstances or management's estimates or opinions could change. The reader is cautioned not to place undue reliance on forward looking statements.



SCHEDULE 1 – PRO FORMA CAPITAL STRUCTURE

Securities	DGI Shares	DGI Options
Existing issued securities*	337,956,790	46,438,750
Broker Introduction Fee	Nil	Nil
Consideration Securities	250,000,000	125,000,000
Initial Capital Raising	50,000,000	50,000,000
TOTAL SECURITIES**	637,956,790	221,438,750

Capital Raising for re-compliance on a <u>post consolidation</u> basis (minimum of 20 cent offer to raise \$2,500,000)	12,500,000	Nil
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Performance Shares and Options	
Tranche 1 issued on the terms set out below	50,000,000 shares and 50,000,000 options
Tranche 2 issued on the terms set out below	50,000,000 shares and 50,000,000 options
Tranche 3 issued on the terms set out below	50,000,000 shares and 50,000,000 options

* The number of existing options as set out in this table reflects the options granted with an exercise price of 1 cent. The balance of the options (total of 425,194) have exercise prices with a minimum price of 9.27 cents up to \$2.00.

** This section of the table reflects the pre-consolidation capital of the Company.

Performance Hurdles

If the following performance hurdles are satisfied, the Performance Shares will convert into Ordinary Shares and Options (pre-consolidation) as follows:

- (a) **(Tranche 1)** - if iCollege achieves \$1,000,000 in gross revenue for any continuous period of 12 months within a period of 2 years from the date of issue of the Performance Shares then 50,000,000 Performance Shares will convert into 50,000,000 Ordinary Shares and attaching 1 for 1 Options;
- (b) **(Tranche 2)** - if iCollege achieves \$500,000 in earnings before interest, tax, depreciation and amortisation for any continuous period of 12 months within a period of 2 years from the date of issue of the Performance Shares then 50,000,000 Performance Shares will convert into 50,000,000 Ordinary Shares and attaching 1 for 1 Options; and
- (c) **(Tranche 3)** - if iCollege achieves \$2,500,000 in earnings before interest, tax, depreciation and amortisation for any continuous period of 12 months within a period of 3 years from the date of issue of the Performance Shares

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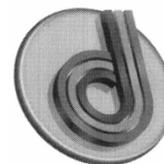
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then 50,000,000 Performance Shares will convert into 50,000,000 Ordinary Shares and attaching 1 for 1 Options.

Loyalty Options

It is the intention of DGI to consider the offer of a loyalty option with a 3 year term and a 20 cent exercise price post re-instatement to trading on ASX. This will be confirmed in the Prospectus.

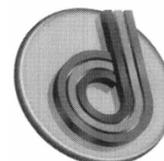


SCHEDULE 2 – PRO FORMA BALANCE SHEET

	Notes	(Unaudited) 30 November 2013	(Unaudited) Pro-forma
		\$	\$
Current Assets			
Cash assets	1	790,460	3,351,072
Receivables		39,393	39,393
Inventories		2,090	2,090
Total current assets		<u>831,943</u>	<u>3,392,555</u>
Net Current Assets			
Property, plant & equipment		20,640	20,640
Intangible assets	2	33,349	2,833,349
Total non-current assets		<u>53,989</u>	<u>2,853,989</u>
Total assets		<u>885,932</u>	<u>6,246,544</u>
Current Liabilities			
Trade payables		18,025	18,025
Contingent consideration payable	3	-	1,050,000
Total current liabilities		<u>18,025</u>	<u>1,068,025</u>
Total liabilities		<u>18,025</u>	<u>1,068,025</u>

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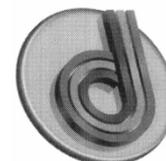
Net assets		<u>867,907</u>	<u>5,178,519</u>
Equity			
Issued capital	4	26,131,311	30,766,923
Share issue cost	5	(191,254)	(441,254)
Share based payments reserve		116,130	116,130
Accumulated losses	6	(25,188,280)	(25,263,280)
Total equity		<u>867,907</u>	<u>5,178,519</u>

Note 1: Cash assets

	\$
Balance at 30 November 2013	790,460
Funds from exercised options on issue	135,612
Funds raised from placement	250,000
Payment of option fee to acquire iCollege	(75,000)
Funds raised from Prospectus	2,500,000
Expenses of the issue	(250,000)
Closing balance	<u>3,351,072</u>

Note 2: Intangibles assets

	\$
Balance at 30 November 2013	33,349



Acquisition of intellectual property*	2,800,000
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	2,833,349
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*250,000,000 upfront shares plus 150,000,000 performance shares at \$0.007

Note 3: Contingent consideration payable

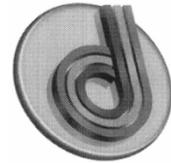
	\$
Balance at 30 November 2013	-
Contingent consideration for performance shares	1,050,000
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Closing balance	1,050,000
	<hr/>

Note 4: Issued capital

	\$
Balance at 30 November 2013	26,131,311
Exercise of options on issue	135,612
Funds raised from placement	250,000
Exercise of option to acquire iCollege	1,750,000
Funds raised from Prospectus	2,500,000
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Closing balance	30,766,923
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Note 5: Share issue cost

	\$
Balance at 30 November 2013	191,254
Share issue cost pursuant to the issue of securities under	250,000
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the Prospectus

Closing balance

441,254

Note 6: Accumulated losses

\$

Balance at 30 November 2013

25,188,280

Payment of option fee to acquire iCollege

75,000

Closing balance

25,263,280
