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**NetDragon Websoft Inc.**

**網龍網絡有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 777)**

**VERY SUBSTANTIAL ACQUISITION  
IN RELATION TO THE ACQUISITION OF PROMETHEAN WORLD PLC**

**THE OFFER AND THE CO-OPERATION AGREEMENT**

Further to the Company's announcement dated 9 June 2015, Digital Train, an indirect non wholly-owned subsidiary of the Company, has announced a firm intention to make a recommended offer for the entire issued and to be issued share capital of Promethean pursuant to Rule 2.7 of the UK Takeover Code. The Offer could result in a maximum aggregate consideration of £84.8 million (equivalent to approximately HK\$1,012.7 million) being payable by the Group. Promethean is listed on the LSE and is a global leader in the interactive learning technology market.

In connection with the making of the Offer, the Company, Digital Train and Promethean entered into the Co-operation Agreement on 10 July 2015 which sets out certain obligations and commitments in relation to the implementation of the Acquisition.

**LISTING RULES IMPLICATIONS**

As the applicable percentage ratio (as defined under the Listing Rules) in respect of the Acquisition exceeds 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is subject to the approval of the Shareholders at the EGM.

A Circular containing, among other things, (i) a notice convening the EGM to approve the Acquisition; (ii) certain financial information in relation to the Promethean Group; and (iii) further information relating to the Acquisition will be despatched to the Shareholders on or before late August 2015 in order to allow sufficient time to prepare the pro forma financial information of the enlarged Group to be included in the Circular pursuant to the Listing Rules.

**As completion of the Acquisition is subject to the fulfilment of the conditions of the Offer set out in the UK 2.7 Announcement and to be set out in the Offer Document, the Acquisition may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.**

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## **THE OFFER**

Under the Offer, which will be subject to the Conditions and terms set out in the UK 2.7 Announcement and to be set out in the Offer Document, Promethean Shareholders will be entitled to receive:

**for each Promethean Share:                      40 pence in cash**

The price per Promethean Share under the Offer was determined by reference to the historical market price for such shares and the Company's own assessment of the prospects of the Promethean Group and related synergies with that of the Group.

The Offer values the fully diluted share capital of Promethean at approximately £84.1 million (equivalent to approximately HK\$1,004.3 million). The Offer represents a premium of approximately:

- 48% to the closing price of 27 pence per Promethean Share on 15 June 2015, being the last Business Day prior to the commencement of the Offer Period;
- 32% to the closing price of 30.38 pence per Promethean Share on 9 July 2015, being the last Business Day prior to the date of this announcement; and
- 52% to the thirty day volume weighted average closing price of 26.31 pence per Promethean Share as of 15 June 2015, being the last Business Day prior to the commencement of the Offer Period.

The Company believes that the Offer should be at a premium to the current market price for a number of reasons, including the following:

- (1) Promethean's new software product is unique, with few competitors having a similar product, and has a significant potential target market;
- (2) Promethean has a global reach with a substantial user base, is a premier brand in the education space and is known in the market for providing a high quality product; this established market presence will allow the Company to build on a leading international education company.

Under the UK Takeover Code, if the bidder has acquired interests in shares in the target during the three months prior to the offer period, or during any period between the commencement of the offer period and the announcement of a firm intention to make an offer by a bidder (or an earlier period if required by the UK Takeover Panel), the offer made by the bidder must not be on less favourable terms. Given that neither the Company nor any member of its Group has acquired interests in shares in Promethean nor is the intention for any such company to acquire any such interests other than through the Offer, such restriction under the UK Takeover Code does not apply to the Offer.

### **Assets to be acquired in relation to the Offer**

The Offer would result in the acquisition by Digital Train of up to 100% of the issued share capital of Promethean and the shares to be issued from the outstanding options granted by Promethean. If the Acquisition completes, Promethean will become a subsidiary of the Company.

## Conditions of the Offer

The Offer will not be implemented unless and until the following conditions are satisfied or, where permitted, waived:

- (i) valid acceptances being received (and not, where permitted, withdrawn) by no later than 1.00 p.m. (UK time) on the First Closing Date (or such later time(s) and/or date(s) as Digital Train may, subject to the UK Takeover Code or with the consent of the UK Takeover Panel, decide) in respect of such number of Promethean Shares which carry in aggregate not less than 90% (or such lower percentage as Digital Train may, subject to the UK Takeover Code, decide) in nominal value in aggregate of Promethean Shares to which the Offer relates and of the voting rights attached to those shares, provided that this Condition will not be satisfied unless Digital Train and/or any of the Company's subsidiaries shall have acquired, or agreed to acquire, pursuant to the Offer or otherwise, Promethean Shares carrying more than 50% of the voting rights normally exercisable at a general meeting of Promethean, including for this purpose (except to the extent otherwise agreed by the UK Takeover Panel) any such voting rights attaching to any Promethean Shares that are unconditionally allotted or issued before the Offer becomes or is declared unconditional as to acceptances whether pursuant to the exercise of any outstanding subscription or conversion rights or otherwise;
- (ii) the passing by the Shareholders at the EGM (or any adjournment thereof) of such resolution or resolutions as are required under the Listing Rules or other applicable regulations or applicable laws, in order to approve, implement and effect the Offer and the acquisition of Promethean Shares by Digital Train pursuant to the Offer; and
- (iii) certain other customary terms and conditions, set out in the UK 2.7 Announcement and to be set out in the Offer Document.

There are conditions customary for an offer under the UK Takeover Code to the Offer, such as clearances from third parties including relevant regulatory authorities in the UK, absence of adverse circumstances to the Promethean Group, absence of material changes in the conduct of Promethean's business, etc. All of the conditions to the Offer which are set out in the UK 2.7 Announcement and to be set out in the Offer Document can be waived, other than Conditions (i) and (ii) above. As such, if the Company does not have acceptances from Promethean Shareholders equal to 90% of Promethean's outstanding share capital it can lapse the offer (or, alternatively, waive

Condition (i) above down to more than 50% of Promethean's outstanding share capital). Similarly, if the Acquisition is not approved at the EGM then the Company can lapse (after consultation with the UK Takeover Panel) the Offer — i.e., this condition would not be waivable if the Acquisition is not approved.

If the Acquisition is not approved by the requisite majority at the EGM then the intention of the Company is to invoke Condition (ii) and lapse the Offer. Similarly, if Promethean Shareholders holding less than 75% of Promethean's outstanding share capital agree to accept the Offer, then the intention is for the Company to lapse the Offer (on the basis that acceptances below this threshold will not allow Promethean to be delisted from the LSE and re-registered as a private company under the applicable rules and statutory provisions in the UK). As described above, the other conditions will either be waived or deemed satisfied by the Company.

The waiver of conditions would not affect the substance of the Offer unless the Offer were to be lapsed pursuant to Condition (i) or if the Acquisition were not approved at the EGM (in which case the Acquisition would not proceed).

### **Completion**

Subject to the relevant Conditions being met, the Offer is expected to become unconditional in all respects on or before 9 months after the date of the UK 2.7 Announcement (or such later date as may be agreed in writing by Digital Train and Promethean (with the UK Takeover Panel's consent, if required)).

### **Funding**

The cash consideration payable by Digital Train to Promethean Shareholders under the Offer will be financed from the Group's existing cash resources.

As at the date of this announcement, the Company does not have any intention of issuing equity or undertake third party debt fund raising (either for its own operating purposes, in connection with the Acquisition or otherwise).

### **Compulsory acquisition, delisting and cancellation of trading and re-registration**

If Digital Train receives acceptances under the Offer in respect of, and/or otherwise acquires or contracts to acquire, 90% or more in nominal value of the Promethean Shares to which the Offer relates and of the voting rights carried by those shares, Digital Train intends to exercise its rights pursuant to and in accordance with sections 974 to 991 (inclusive) of the Companies Act to acquire compulsorily any remaining Promethean Shares to which the Offer relates on the same terms as the Offer.

After the Offer becomes or is declared unconditional in all respects and if Digital Train has, by virtue of its shareholdings and acceptances of the Offer acquired, or agreed to acquire, Promethean Shares representing at least 75% of the voting rights of the Promethean Shares in aggregate, Digital Train intends to procure the making of an application by Promethean for cancellation, respectively, of the trading in Promethean Shares on the LSE's main market for listed securities and of the listing of the Promethean Shares on the official list of the Financial Conduct Authority. A notice period of not less than 20 Business Days before the cancellation will commence on the date on which the Offer becomes or is declared unconditional in all respects provided Digital Train has attained 75% or more of the voting rights as described above or otherwise as soon as Digital Train attains 75% or more of the voting rights as described above. Delisting would significantly reduce the liquidity and marketability of any Promethean Shares not assented to the Offer.

It is also intended that, following the Offer becoming or being declared unconditional in all respects and assuming the cancellation of the admission to trading on the LSE's main market for listed securities of the Promethean Shares and of the listing of the Promethean Shares on the official list of the Financial Conduct Authority occurs, Promethean will be re-registered as a private company under the relevant provisions of the Companies Act.

### **Recommendation by the directors of Promethean to Promethean Shareholders**

Promethean's directors, who have been so advised by Gleacher Shacklock LLP, the financial adviser to Promethean as to the financial terms of the Offer, consider the terms of the Offer to be fair and reasonable. In providing advice to Promethean's directors, Gleacher Shacklock LLP has taken into account the commercial assessments of Promethean's directors. Gleacher Shacklock LLP is providing independent financial advice to Promethean's directors for the purposes of the UK Takeover Code.

### **IRREVOCABLE UNDERTAKINGS AND LETTER OF INTENT**

#### **EGM**

DJM, Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc., being Shareholders holding approximately 38.41%, 5.30%, 3.82% and 2.80% of the entire issued share capital of the Company, respectively, have irrevocably undertaken to the Company and Digital Train to vote in favour of any resolutions to approve the acquisition of the Promethean Shares pursuant to the Offer at the EGM.

## **Offer**

The Company and Digital Train have received irrevocable undertakings to accept (or procure the acceptance of) the Offer from the Cann Trusts in respect of, in aggregate, a total of 60,553,283 Promethean Shares representing approximately 29.80% of the ordinary share capital of Promethean in issue on 9 July 2015, being the last Business Day prior to the date of this announcement. In addition, the Cann Trusts beneficially hold 4,000,000 Promethean Shares, representing approximately 1.97% of the ordinary share capital of Promethean in issue on 9 July 2015, being the last Business Day prior to the date of this announcement, which are pledged in favour of, and which are registered in the name of, Barclayshare Nominees Limited. The trustees of the R.J. Cann Discretionary Trust have agreed to use their reasonable efforts to procure that Barclayshare Nominees Limited accepts the Offer in respect of the said pledged shares.

The Company and Digital Train have also received irrevocable undertakings to accept (or procure the acceptance of) the Offer from Graham Howe, Philip Rowley, Jim Marshall, Ian Baxter and Lord Puttnam, being the Promethean Directors who hold Promethean Shares, representing, in aggregate, approximately 5.62% of the ordinary share capital of Promethean in issue on 9 July 2015, being the last Business Day prior to the date of this announcement.

Therefore, in total, the Company and Digital Train have received irrevocable undertakings to accept (or procure the acceptance of) the Offer in respect of aggregate holdings of a total of 71,974,331 Promethean Shares which represent approximately 35.42% of the ordinary share capital of Promethean in issue on 9 July 2015, being the last Business Day prior to the date of this announcement.

The Company and Digital Train have also received a letter of intent to accept (or procure the acceptance of) the Offer from Aberforth Partners LLP (on behalf of its clients) in respect of, in aggregate, a total of 45,360,369 Promethean Shares representing approximately 22.32% of the ordinary share capital of Promethean in issue on 9 July 2015, being the last Business Day prior to the date of this announcement.

## **CONFIDENTIALITY AGREEMENT**

The Company and Promethean entered into a mutual confidentiality agreement dated 3 October 2014 pursuant to which each of the Company and Promethean has undertaken, among other things, to keep certain information relating to the Offer and the other party confidential and not to disclose it to third parties (other than to permitted parties) unless required by law or regulation.

## **TERMS OF THE CO-OPERATION AGREEMENT**

On 10 July 2015, the Company, Digital Train and Promethean entered into the Co-operation Agreement pursuant to which, among other things, the Company, Digital Train and Promethean have agreed to certain undertakings to co-operate and provide each other with reasonable information and assistance (a) for the preparation and publication of the Offer Document, (b) for the preparation and publication of the Circular and (c) in relation to any regulatory clearances and authorisations necessary to implement the Offer.

By way of compensation for any loss suffered by Promethean in connection with the preparation and negotiation of the acquisition of the Promethean Shares by Digital Train pursuant to the Offer, Digital Train has agreed to pay Promethean £3 million (equivalent to approximately HK\$36 million) if the resolutions proposed at the EGM (or any subsequent adjournment(s) thereof) to approve the Offer are not passed by the Shareholders within 81 days of the posting of the Offer Document prior to the termination of the Co-operation Agreement in accordance with its terms.

The Co-operation Agreement also provides that Promethean shall pay, on the next practicable payroll date after the Offer becomes or is declared unconditional in all respects: (i) a cash sum payment to each of Jim Marshall, Ian Baxter (both being Promethean Directors) and Wendy Baker (the company secretary of Promethean) equal to the gain that such employee would have made in respect of awards under the applicable Promethean Share Schemes that Promethean had intended to be granted to the aforesaid persons as disclosed in Promethean's annual report for the year ended 31 December 2014 but were not made due to the intended recipients' knowledge of the proposed Offer; and (ii) cash sum payments of an amount of not more than £117,444 to the holders of the phantom awards granted pursuant to Schedule B to the relevant Promethean Share Scheme. The Company has agreed to bear (or to procure that Digital Train will bear) the cost of all such payments.

The Co-operation Agreement also records Digital Train's and Promethean's intention to implement the Offer by way of a takeover offer, subject to the ability of Digital Train to proceed by way of a scheme of arrangement in certain circumstances. The Co-operation Agreement also contains provisions that will apply in respect of the Promethean Share Schemes and certain other employee incentive arrangements.

The Co-operation Agreement is governed by English law.



## INFORMATION ABOUT THE GROUP

### Digital Train

Digital Train is an indirect non-wholly owned subsidiary of the Company incorporated in the British Virgin Islands. Digital Train is an investment holding company that is wholly owned by Best Assistant Education. Best Assistant Education holds the Group's interests in the online education market, including in particular the development of K-12, vocational, non-academic credential and lifelong educational products. The Company's strategy is to keep its various business lines differentiated through different business groups in order to allow flexibility for different joint venture partners and/or financing structures in each business segment, thereby ultimately ensuring maximum return to the Shareholders. In this context as Promethean is an education technology entity, the Company intends to implement the acquisition through a vehicle that will allow the acquired company to remain within the education business line of the Company.

The Company, through NetDragon (BVI), controls approximately 77.96% of the voting rights of Best Assistant Education which, in turn, wholly owns Digital Train. The voting rights of the shareholders of Best Assistant Education are set out in the Company's announcement dated 6 January 2015. As at the date hereof, other than IDG Group (4.65% voting rights) and DJM (0.20% voting rights), the other remaining shareholders of Best Assistant Education are not connected persons of the Company.

IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are limited partnerships and controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35% by each of Zhou Quan and Chi Sing Ho.

IDG-Accel China Investors L.P. is a limited partnership controlled by its sole general partner, IDG-Accel China Investor Associates Ltd, which in turn is held as to 100% by Chi Sing Ho. IDG Group is principally engaged in venture capital investment in start-up or growth stage companies with PRC-related business. IDG Group are substantial shareholders of the Company with approximately 13.56% shares in aggregate in the Company as at the date of this announcement. In the light of IDG Group's 13.56% interest in the Company and 4.65% voting rights in Best Assistant Education, IDG Group will be required to abstain from voting of any resolutions to approve the Acquisition pursuant to the Offer at the EGM.

DJM, a company incorporated in the British Virgin Islands with limited liability and is the controlling shareholder of the Company with approximately 38.41% shares in the Company as at the date of this announcement. DJM is owned as to 95.36% by Mr. Liu Dejian (an executive director of both the Company and the sole director of Digital Train) and 4.64% by Mr. Zheng Hui (an executive director of the Company). DJM is principally engaged in investment holding. DJM is deemed to be acting in concert with Digital Train for the purposes of the Offer.

### **The Company and the Group**

The Company, headquartered in Fuzhou City of Fujian Province of the PRC, is a leading online game and mobile internet platform developer and operator in the PRC and is committed to becoming a pioneer in developing a transformational online and mobile education ecosystem platform. The Company underwent an initial public offering in 2007 and migrated to the Main Board of the Stock Exchange on 24 June 2008. The Company's market capitalization on 9 July 2015 (being the Business Day immediately prior to the date of this announcement) was HK\$11.8 billion (equivalent to approximately US\$1.5 billion).

Leveraging its advanced technologies, research and development capabilities, deep market insight and extensive global perspective, the Company launched a series of original and proprietary online games, mobile games and mobile application products and has become a forerunner in China's online game and mobile internet industries and a pioneer in overseas market expansion.

The Company is also one of the most successful serial-entrepreneurial mobile internet companies in China. In 2008, "91 Assistant" was launched by the Company and is one of the most popular smart phone management tools for smart phone users. In October 2013, the Company completed the sale of 91 Wireless Websoft Limited and its subsidiaries to Baidu (Hong Kong) Limited for US\$1.85 billion, the largest M&A transaction in the mobile internet space in China.

The Company is currently developing a new strategic business — online and mobile education. The company's vision in the education space is to develop a game-changing online and mobile education ecosystem. The Company intends to achieve this vision by leveraging its proven world class mobile internet and gaming expertise, large-scale technology resources and team infrastructure that was built out of scaling several successful businesses since its inception. The Company is currently in product development stage with the high-level roadmap to create a holistic, integrated ecosystem product that covers best-in-class software, hardware, content and social network, and to be commercialized and scaled with a mobile internet strategy.

Being a publicly listed company in Hong Kong with a strong balance sheet, the Company has the financial resources to fund the creation of “101 Education” with over approximately US\$450 million of net cash on hand. In addition to financial resources, the Company has a large R&D workforce with over 50% of its 3,000 plus employees in R&D, as well as a wide network of partnerships and relationships with an extensive range of key service/content providers and distributors.

As at 31 December 2014, the Company had revenues of approximately £100.9 million (equivalent to approximately HK\$1,205.0 million), operating profits of approximately £26.4 million (equivalent to approximately HK\$315.3 million) and profit for the year of approximately £18 million (equivalent to approximately HK\$215 million).

## **INFORMATION ABOUT PROMETHEAN**

Promethean is a global leader in the interactive education technology market offering a wide spectrum of education front-of-class hardware products as well as a recently introduced interactive education software product. It is listed in the LSE (PRW.LN), and it is one of a very few education technology companies globally that has (1) a hardware and software combined-solution including its flagship interactive whiteboards (being its core revenue stream with a global market share of 25% excluding China and Turkey, making it the second largest competitor behind the number 1 player, SMART, a Canadian company) and interactive classroom software; and (2) sales and market reach to 100 countries, with the U.S. and U.K. taking the majority share of its revenue.

Promethean’s core businesses include the sale of (i) hardware products — ActivBoards (interactive whiteboard) and ActivPanels (interactive flat panel); and (ii) software products — “ClassFlow”. These hardware products serve as integrated interactive tools and resources that are used predominantly by teachers and students in the classroom environment. Supporting and enhancing the Company’s hardware business line, Promethean has also developed “Promethean Planet”, one of the world’s largest online interactive whiteboard communities, and “ClassFlow”, an instructional delivery software that increases engagement between the teacher and the student by providing interactive and collaborative tools that operate with different classroom devices, digital curriculum and assessments for learning. For all these business segments, Promethean’s core target customers are students and teachers in the K-12 (kindergarten to year 12) age groups. Set out below are further details on each product segment of Promethean:

- (1) Interactive white boards — multi-touch white boards which come in a range of different sizes (78” to 88”) and ranges; these are a low cost option that provide

teachers in the K-12 education segment with the opportunity to enhance classroom interaction and increase the effectiveness of their classes; Promethean's main markets for these products have historically been the US and the UK representing 30-40% of total interactive white board sales;

- (2) Interactive flat panels — multi-touch panel displays which are sold in different sizes (55" to 84") and ranges depending on specifications; these products are higher priced than the interactive white boards and are increasingly the product of choice in developed markets; most of the company's sales have taken place in the US and UK, together representing 78% of total flat panel sales, and have come as a result of interactive white board users replacing their old equipment for new interactive flat panels;
- (3) Learner response systems — handheld devices which allow for direct teacher-student engagement by providing functionality for teachers to ask questions and for students to respond through these handheld devices; because of the increased penetration of personal devices such as tablets, the sale of these systems is insignificant and a minimum percentage of total revenues;
- (4) ClassFlow — instructional delivery software that increases engagement between the teacher and the student by providing interactive and collaborative tools that operate with different classroom devices, digital curriculum and assessments for learning; the product rollout only begun in late 2014 and is still in roll out phase with the main target market being the K-12 market in the US and UK;
- (5) Promethean Planet — online community of interactive whiteboard users (mainly teachers) who share and download resources from the online platform; most of the resources are free of charge as they are created by other users and therefore Promethean considers this platform as a "value-added" service to its clients rather than a revenue generating one.

Promethean currently has operations in China in the form of offices, warehouses, service centres, accomodation and production plants in Shenzhen, approximately 110 employees and business relationships with hardware manufacturers as the majority of Promethean's products are manufactured in China. Promethean also markets and sells its products in China but revenue generated from these operations is minimal. Such operations in China does not fall within the foreign restricted business in China and there are no structured contract arrangements in place for the operations of Promethean in China.

Promethean has 590 employees in 8 regional offices around the world, including the UK, the United States, France, Germany and China which, together, cover sales in over 100 countries.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Promethean and the ultimate beneficial owners of its controlling shareholders are third parties independent of the Company and connected persons of the Company.

### Financial information of Promethean

The following table shows the audited consolidated financial information of Promethean for the three financial years ended 31 December 2014, 31 December 2013 and 31 December 2012:

	For the year ended 31 December 2014		For the year ended 31 December 2013		For the year ended 31 December 2012	
	<i>(approximate equivalence</i>		<i>(approximate equivalence</i>		<i>(approximate equivalence</i>	
	£'000	in HK\$'000)	£'000	in HK\$'000)	£'000	in HK\$'000)
Revenue	118,174	1,411,258	141,158	1,685,737	157,001	1,874,937
EBITDA	839	10,020	9,407	112,340	5,102	60,929
Loss (before taxation)	(9,618)	(114,860)	(6,706)	(80,084)	(165,430)	(1,975,598)
Loss (after taxation)	(16,502)	(197,070)	(5,797)	(69,229)	(159,825)	(1,908,662)

The audited net assets of Promethean as at 31 December 2014 were approximately £36,623,000 (equivalent to approximately HK\$437,359,190).

Promethean's decline in EBITDA and increase in net loss for the year ended 31 December 2014 was largely due to a decrease in both volumes of units sold and average sale prices per unit as a result of changing market conditions in Promethean's two main markets, the US and the UK. Promethean Group revenues for 2014 were approximately £118.2 million, down 16.3% versus 2013 as a result of selling 121,977 interactive display systems (both interactive whiteboards and interactive flat panels) compared to 128,677 in 2013 and the average selling price decreasing 10% from £1,026 to £924 per unit. In conjunction with decreasing revenues, Promethean's gross margin also decreased to 31.9% in 2014 from 35.8% in 2013 due to the impact of lower lesson content revenues, large tender pricing and changing product mix. The resulting EBITDA of approximately £0.8 million for 2014 reflects the lower revenues and the reduction of gross margin. Additionally, Promethean derecognised the brought forward deferred tax asset of £5.6 million in respect of losses in its UK subsidiaries resulting in a net loss of approximately £16.5 million for the year ended 31 December 2014.

The market consensus is that the education technology sector has been shifting dramatically over the past 5 years and as a result most long standing companies,

particularly in the K-12 segment, have seen their volume sales and revenues decrease significantly. As a result of this trend, Promethean has sought over the past 2-3 years to diversify its revenue streams and invest in software development. The combination of these market shifts and investment in new products has incurred losses to Promethean.

For illustration purposes, the following have been the operating figures since 2012: decline in sales of interactive displays from 134,367 in 2012 to 121,977 in 2014, decline in average selling price from £1,036 in 2012 to £924 in 2014, decline in sales of learner response systems from 581,103 in 2012 to 191,094 in 2014. The resulting effect in revenues has been a decline from approximately £157 million in 2012 to approximately £118 million in 2014 with gross margin decreasing from 36.7% in 2012 to 31.9% in 2014. In parallel to these declining revenues and margins Promethean has continued investing in R&D and has invested between £12 million and 14.5 million annually in the improvement of existing products and the development of new products.

The significant loss for the year ended 31 December 2012 resulted from a goodwill impairment of £140.5 million (equivalent to approximately HK\$1,677.9 million) as a result of Promethean's re-appraisal of its assets in view of the economic conditions at the time.

Although Promethean's operating and financial performance has been diminishing over the past few years, the Company believes that this Acquisition would be in line with its strategy of developing its education business organically and inorganically by leveraging its experience in online gaming and mobile applications as well as its significant financial resources in order to create a global education product and services provider. In this context, the acquisition of Promethean would provide the Company with an immediate and substantial international user base, presence in the market through a reputable brand, good quality products and an innovative software system. All these elements together with the Company's own skills and expertise could allow for a significant development and growth of the combined group.

## REASONS FOR AND BENEFITS OF THE ACQUISITION

The Board believes that the Offer is strategically attractive and will deliver the following benefits:

### *Strategic entry into the global education market*

- The acquisition of Promethean would build on the Company's existing position in the education sector and give the Company a global presence in the education market.
- Promethean's current and prospective customer base would serve as a solid platform through which to begin the sale of new products and technologies currently in development by the Company.

### *Promethean has a strong brand in the education market*

- Promethean has been providing high quality products to the education market since its foundation in 1998 and has established itself as one of the leading brands in the education market.
- The Company intends to continue developing and enhancing Promethean's brand.

### *The Company's financial resources and expertise can accelerate Promethean's strategic development and financial performance*

- The Company has successfully built and scaled several mobile internet businesses and therefore will be in a strong position to help Promethean in commercialising its products with a mobile internet knowhow.
- As a result of the Company's successful track record since its inception, the Company has accumulated over approximately US\$450 million (equivalent to approximately HK\$3,488 million) of cash which it will tap into to develop a global education business.
- Promethean's shift from solely being an education hardware provider towards also being a software provider has depleted Promethean's cash reserves and, accordingly, Promethean would benefit from financial support.
- The Company has developed a wide network of supplier and vendor relationships in Asia which could assist in lowering Promethean's cost base and improving gross margins.

- The Company believes that with sufficient financial backing, Promethean's management team and key employees would be able to focus on developing and rolling out new products which are core to Promethean's future.

*Promethean's and the Company's management teams would be complementary*

- Promethean's management team has significant experience in product development and go-to-market in the education market, while the Company's management have significant experience in product development and commercialisation of products in the mobile internet space. As mobile and online technologies become increasingly prominent in the education field, the combination of the experience and skillset of both management teams could become highly synergistic.
- Both management teams have a similar vision for the future of Promethean and would leverage on each team's experience to ensure a successful future.

The Board expects to support and accelerate Promethean's hardware and software roll out in its current markets of operation as well as additional markets across the globe. The objective of the Group's support is to ensure that Promethean strengthens its position as an education market leader and maximises the potential of the opportunities available in the education sector.

The Company believes that the Acquisition will contribute to the existing online gaming and education businesses by the complement of the sale of hardware products and creation of an education eco-system provided by the combined group. In addition, Promethean's current and prospective customer base would serve as a solid platform through which to begin the sale of new products and technologies currently in development by the Company.

The Board believes that it shares similar values and objectives to those of the board of directors and management team of Promethean. The Board recognises the contributions made by Promethean's management and employees and believes that they are very important to the future development of the company.

Although the Company does not have plans to materially change the Promethean Group's organisational structure, the Company may adjust the Promethean Group's cost base after completion to explore savings in light of factors including market environment, financial performance and the pace of business development opportunities.

The Company confirms that, following the Offer becoming or being declared unconditional in all respects, the Company will fully safeguard the existing employment rights of all Promethean employees in accordance with contractual and statutory requirements. In addition, the Company intends to comply with all of the pension obligations in relation to Promethean's employees and other members of Promethean's pension schemes.



The Company has no intention, is not in negotiations with, has not reached any agreements, arrangements or understandings about any acquisition or injection of any new business, or any disposal, scaling down and/or termination of its existing businesses and/or major operating assets.

For the reasons set out above, the Board considers that the terms of the Offer are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

As the applicable percentage ratio (as defined under the Listing Rules) in respect of the Acquisition exceeds 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is subject to the approval of the Shareholders at the EGM.

The EGM will be convened to consider and, if thought fit, approve the Acquisition. As disclosed in the section headed “Information about the Group” in this announcement, IDG Group will be required to abstain from voting of any resolutions to approve the Acquisition pursuant to the Offer at the EGM. Save as disclosed above, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the Acquisition. Accordingly, no other Shareholder is required to abstain from voting on the relevant resolutions approving the Acquisition.

A Circular containing, among other things, (i) a notice convening the EGM to approve the Acquisition; (ii) certain financial information of the Promethean Group; and (iii) further information relating to the Acquisition will be despatched to the Shareholders on or before late August 2015 in order to allow sufficient time to prepare the pro forma financial information of the enlarged Group to be included in the Circular pursuant to the Listing Rules.

Compliance with the disclosure requirements of the Circular under Chapter 14 of the Listing Rules which relates to certain non-public financial information of Promethean and/or the enlarged Group will be deferred pursuant to Rule 14.67A of the Listing Rules for the following reasons:-

- (a) whilst the board of directors has recommended the Offer to its shareholders, Promethean has confirmed that it will not undertake the time, cost and expense of producing audited financial information which is not more than six months old for inclusion in the Circular given that it is not required to produce such audited financial information under its listing rules;

- (b) Promethean is not permitted to make selective disclosure of such financial information to the Company without also making complete and effective public disclosure of that information. The restrictions are primarily set out in the Disclosure and Transparency Rules published by the Financial Conduct Authority in the United Kingdom;
- (c) Promethean has been listed on the LSE since 24 March 2010 and the LSE is recognised by the Stock Exchange for the purposes of Rule 14.67A; and
- (d) assuming the Acquisition completes, Promethean will become a subsidiary of the Company.

The information which would be deferred includes (i) the consolidated audited results of Promethean, (ii) the pro forma income statement, balance sheet and cashflow statement of the enlarged Group, in each case, for a financial period ended not more than 6 months before the date of the Circular, and (iii) the working capital statement and indebtedness statement of the enlarged Group.

#### **DOCUMENTS AVAILABLE**

Copies of the following documents will be published by no later than 12 noon (UK time) (7 p.m. (Hong Kong time)) on the Business Day immediately following the date of this announcement on the Company's website at <http://ir.netdragon.com> and on Promethean's website at <http://www.prometheanworld.com/> and will be made available until the end of the Offer Period:

- (a) the UK 2.7 Announcement of the Company containing the terms of the Offer;
- (b) the irrevocable undertakings and letter of intent referred to in the section headed "Irrevocable Undertakings and Letter of Intent" above;
- (c) a copy of confidentiality agreement dated 3 October 2014 pursuant to which each of the Company and Promethean has undertaken, among other things, to keep certain information relating to the Offer and the other party confidential and not to disclose it to third parties (other than to permitted parties) unless required by law or regulation; and
- (d) a copy of the Co-operation Agreement.

## DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context otherwise requires:

“Acquisition”	the proposed acquisition by the Company of the entire issued and to be issued ordinary share capital of Promethean pursuant to the terms of the Offer
“Best Assistant Education”	Best Assistant Education Online Limited, a company incorporated in the Cayman Islands with limited liability, being an indirect non-wholly owned subsidiary of the Company
“Board”	board of Directors
“Business Day”	a day on which banks are generally open for business in the City of London and Hong Kong (excluding Saturdays, Sundays and public holidays in the UK and HK)
“Cann Trusts”	the HAC 1997 Interest Possession Trust, the SJ Cann Discretionary Trust, the C.A. Cann Discretionary Trust, the R.J. Cann Discretionary Trust, the J.R. Cann Discretionary Trust, the Bowland Charitable Trust and the Trigger Holepunch Partnership
“Circular”	the circular to be sent by the Company to the Shareholders summarizing the background to and reasons for the Offer which will include a notice convening the EGM
“Company”	NetDragon Websoft Inc., a company incorporated in Cayman Islands with limited liability and listed on the Main Board of the Stock Exchange
“Companies Act”	the UK Companies Act 2006 (including the schedules thereto), as amended
“Conditions”	the conditions to the Offer set out in the Offer Document, and Condition means any one of them
“Co-operation Agreement”	the co-operation agreement dated 10 July 2015 entered into between the Company, Digital Train and Promethean and relating, among other things, to the implementation of the Offer

“Digital Train”	Digital Train Limited, a company incorporated in the British Virgin Islands with limited liability, being an indirect non-wholly-owned subsidiary of the Company and a direct wholly-owned subsidiary of Best Assistant Education
“Directors”	directors of the Company
“DJM”	DJM Holding Ltd., a company incorporated in the British Virgin Islands with limited liability, being a Series A Shareholder
“EGM”	the extraordinary general meeting of the Company to be convened and held for the independent Shareholders to consider and, if thought fit, approve, among other things, the Offer
“Financial Conduct Authority”	the UK’s Financial Conduct Authority, or any successor entity
“First Closing Date”	the date which is 21 days after the day of posting of the Offer Document
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency in Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IDG Group”	together IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P.
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LSE”	the London Stock Exchange plc, or any successor thereto
“NetDragon (BVI)”	NetDragon Websoft Inc., a company incorporated in the British Virgin Islands with limited liability, being a direct wholly-owned subsidiary of the Company

“Offer”	the proposed offer for the entire issued and to be issued share capital of Promethean by Digital Train and where the context permits any subsequent revision, variation, extension or renewal thereof
“Offer Document”	the offer document to be sent by or on behalf of Digital Train to the Promethean Shareholders containing the terms and conditions of the Offer
“Offer Period”	the offer period (as defined in the UK Takeover Code) relating to Promethean, which commenced on 16 June 2015
“Offer Price”	40 pence (equivalent to approximately HK\$4.7768) per Promethean Share
“Promethean”	Promethean World plc, a company incorporated in England and Wales with registered number 07118000 and listed on the main market of the LSE
“Promethean Group”	Promethean and its subsidiaries
“Promethean Share Schemes”	the share schemes operated by Promethean, being the (i) the PSP; (ii) the Promethean Company Share Option Plan 2010, as amended from time to time; and (iii) the Chalkfree Limited Unapproved Company Share Option Plan, as amended from time to time
“Promethean Shares”	the issued and to be issued ordinary shares of 10 pence each in the capital of Promethean, being 203,200,000 in issue as at 9 July 2015 (being the last Business Day prior to the date of this announcement)
“Promethean Shareholders”	the holders of the Promethean Shares from time to time
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, Taiwan and the Macau Special Administrative Region
“PSP”	the Promethean Performance Share Plan 2011, as amended from time to time
“RMB”	Renminbi, the lawful currency in the PRC

“Series A Preferred Shares”	the Series A preferred shares of Best Assistant Education issued pursuant to the terms of the Series A preferred share purchase agreement dated 6 January 2015
“Series A Shareholders”	The holders of the Series A Preferred Shares (other than, for the avoidance of doubt, NetDragon (BVI))
“Shareholders”	holders of the share of the Company from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“UK”	the United Kingdom
“UK 2.7 Announcement”	the announcement of the Offer issued in accordance with Rule 2.7 of the UK Takeover Code
“UK Takeover Code”	the City Code on Takeovers and Mergers issued from time to time by the UK Takeover Panel
“UK Takeover Panel”	the Panel on Takeovers and Mergers, or any successor thereto, in the UK
“US\$”	United States dollar, the lawful currency in the United States
“£”	Great British pound, the lawful currency in the UK
“%”	per cent.

*The exchange rates adopted in this announcement, which are for illustrative purpose only, are £1.00 = HK\$11.9422, RMB1.00 = £0.1061 and HK\$1.00 = US\$0.1290. Such conversions should not be construed as a representation that the currencies could actually be converted at those rates.*

By order of the Board  
**NetDragon Websoft Inc.**  
**Liu Dejian**  
*Chairman*

Hong Kong, 10 July 2015

*As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Liu Dejian, Mr. Liu Luyuan, Mr. Zheng Hui and Mr. Chen Hongzhan; one non-executive Director, namely Mr. Lin Dongliang; and three independent non-executive Directors, namely Mr. Chao Guowei, Charles, Mr. Lee Kwan Hung and Mr. Liu Sai Keung, Thomas.*