THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in NetDragon Websoft Inc., you should at once hand this circular to the purchaser or transferee or to a licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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 AND NOTICE OF EXTRAORDINARY GENERAL MEETING

A letter from the Board is set out on pages 5 to 31 of this circular.

A notice convening the EGM to be held at Plaza Meeting Room, Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 17 September 2015 at 3:00 p.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete and return the accompanying proxy form to the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for holding the EGM (or any adjournment thereof). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) if you so wish.

31 August 2015

CONTENTS

In this circular, unless the context indicates otherwise, the following expressions have the following meanings:

"Acquisition"	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"	the board of Directors
"Business Day"	any 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 H.A.C. 1997 Interest Possession Trust, the S.J. 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
"chief executive"	has the meaning ascribed to it under the Listing Rules
"Company"	NetDragon Websoft Inc., a company incorporated in the 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
"Completion Date"	the third working day after completion of the registration of transfer of the Sale Shares and the issue of a revised business registration certificate of Promethean by the relevant regulatory authority or such later date as agreed between the Vendors and the Purchaser
"Confidentiality Agreement"	the confidentiality agreement dated 3 October 2014 entered into between the Company and Promethean
"Conditions"	the conditions to the Offer set out in the Offer Document, and Condition means any one of them
"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules

"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
"Director(s)"	the director(s) of the Company
"DJM"	DJM Holding Ltd., a company incorporated in the British Virgin Islands with limited liability, being a controlling shareholder of the Company
"EGM"	the extraordinary general meeting of the Company to be held at Plaza Meeting Room, Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 17 September 2015 at 3:00 p.m. for the purpose of considering and, if thought fit, approving, among other things, the Acquisition and the transactions contemplated thereunder
"Enlarged Group"	the Company and its subsidiaries as enlarged by the Acquisition upon Completion
"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 dollars, the lawful currency of 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.
"Latest Practicable Date"	27 August 2015, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"LSE"	the London Stock Exchange plc, or any successor entity

"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 sent by or on behalf of Digital Train to the Promethean Shareholders containing, among other things, 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$4.81) per Promethean Share
"PRC"	the People's Republic of China, excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region and Taiwan
"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 the Latest Practicable Date
"Promethean Shareholders"	the holders of the Promethean Shares from time to time
"PSP"	the Promethean Performance Share Plan 2011, as amended from time to time
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	100% equity interest of Promethean

"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, details of which are disclosed in the Company's announcement dated 6 January 2015
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shares"	ordinary shares of US$0.01 each in the share capital of the Company
"Shareholders"	holders of Shares from time to time
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"UK"	the United Kingdom
"UK Takeover Code"	the City Code on Takeovers and Mergers issued from time to time by the UK Takeover Panel
"UK Takeover Panel"	the Panel on Takeovers and Mergers, or any successor entity, in the UK
"UK 2.7 Announcement"	the announcement of the firm intention to make the Offer issued by the Company and Promethean on 10 July 2015 in accordance with Rule 2.7 of the UK Takeover Code
"US$"	United States dollar, the lawful currency in the United States
"£"	Great British Pound, the lawful currency in the UK
"%"	per cent

* *All English translation of the Chinese names is for illustration purpose only*

For the purposes of this circular, unless otherwise indicated, conversions of £ and HK$, RMB and £, and HK$ and US$ are calculated at the exchange rates of £1.00 to HK$12.0237, RMB1.00 to £0.1006 and HK$1.00 to US$0.1290, respectively. These exchange rates are for illustrative purposes only and do not constitute a representation that any amount has been, could have been, or may be exchanged at this or any other rate or at all.

NetDragon Websoft Inc.
網龍網絡有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 777)

Executive Directors:
Mr. Liu Dejian
Mr. Liu Luyuan
Mr. Zheng Hui
Mr. Chen Hongzhan

Non-executive Director:
Mr. Lin Dongliang

Independent Non-executive Directors:
Mr. Chao Guowei, Charles
Mr. Lee Kwan Hung
Mr. Liu Sai Keung, Thomas

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Unit No. 2209
22nd Floor, West Tower
Shun Tak Centre
Nos. 168-200 Connaught Road
Central
Hong Kong

31 August 2015

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE ACQUISITION OF PROMETHEAN WORLD PLC AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 10 July 2015 in relation to, among other things, the proposed acquisition by Digital Train, an indirect non-wholly owned subsidiary of the Company, of the entire issued and to be issued ordinary share capital of Promethean pursuant to the terms of the Offer. On 10 July 2015, Digital Train announced in the UK 2.7 Announcement 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 approximately £84.8 million (equivalent to approximately HK$1,019.6 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.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition; (ii) financial information of the Group; (iii) financial information of the Target Group; (iv) the unaudited pro forma financial information of the Enlarged Group; and (v) notice of the EGM to be convened and held for the purpose of considering and, if thought fit, approving the Acquisition and the transactions contemplated thereunder.

THE OFFER

Under the Offer, which will be subject to the Conditions and terms 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 entire issued and to be issued ordinary share capital of Promethean at approximately £84.1 million (equivalent to approximately HK$1,011.2 million). The Offer represents a premium of approximately:

- 48.15% over 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;
- 2.56% to the closing price of 39 pence per Promethean Share on 27 August 2015, being the Latest Practicable Date; and
- 52.03% 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; and

(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.

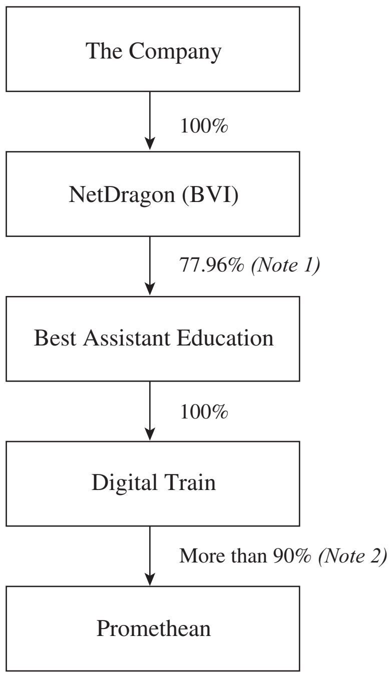
Under the UK Takeover Code, if the bidder has acquired interests in shares in the target during the three months prior to the offer period, or during any period between the commencement of the offer period and the announcement of a firm intention to make an offer by a bidder (or an earlier period if 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 under and pursuant to the terms of the Offer, such restrictions under the UK Takeover Code do not apply to the Offer.

The maximum aggregate consideration of approximately £84.8 million (equivalent to approximately HK$1,019.6 million) payable by the Group comprises (i) the aggregate Offer Price of approximately £84.1 million for all the Promethean Shares and the shares to be issued from the outstanding options granted by Promethean under the Promethean Share Schemes, (ii) the payment of £537,200 to certain Promethean Directors and the company secretary as compensation for some share awards that would have been granted and a payment of not more than £117,444 to the relevant grantees under the PSP under the Co-operation Agreement (please see the section headed "Terms of the Co-operation Agreement" below in this "Letter from the Board" for further details) and (iii) the payment of £69,167 to the non-executive directors of Promethean. For additional services carried out by Graham Howe, Jackie Yeaney, Judy Verses and Lord Puttnam, being the non-executive directors of Promethean, outside of the normal business of board of Promethean in connection with the Offer, it has been agreed that a sum of £69,167 in aggregate will be paid to them. Such sum is to be paid by the Company or Digital Train on the next practicable payroll date after the Offer becomes or is declared unconditional in all respects, or is to be paid by Promethean if the Offer does not become unconditional in all respects.

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 under the Promethean Share Schemes.

If the Acquisition completes, Promethean will become a subsidiary of the Company. The chart below sets out, for illustration purposes, the shareholding of the Company in Promethean immediately after completion of the Acquisition:-



Notes:

1. As at the Latest Practicable Date, the total share capital of Best Assistant Education comprised 1,300,000,000 ordinary shares and 180,914,513 Series A Preferred Shares. 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 Latest Practicable Date, NetDragon (BVI) controls approximately 77.96% voting rights of Best Assistant Education. 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.

2. The Offer is conditional on acceptances 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 any event, to the extent the 90% requirement is lowered, it will be more than 50%.

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 terms of the Offer; and

(iii) certain other customary terms and conditions 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., which are set out in the UK 2.7 Announcement and in the Offer Document.

All of the conditions to the Offer which are set out in the UK 2.7 Announcement and 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). 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 as at the Latest Practicable Date. 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 as at the Latest Practicable Date.

Similarly, if the Acquisition is not approved at the EGM then the Company can lapse (after consultation with and agreement from the UK Takeover Panel) the Offer — i.e., this Condition will not be capable of being waived if the Acquisition is not approved. In circumstances where Condition (ii) is not satisfied, due to a failure by Shareholders to approve the Acquisition at the EGM, the Company has agreed to pay (or to procure that Digital Train shall pay) to Promethean £3 million (equivalent to approximately HK$36.1 million) as a break payment. DJM, Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc., being Shareholders holding approximately 38.40%, 5.29%, 3.82% and 2.80% (that is, 50.31% in aggreate) of the entire issued share capital of the Company as at the Latest Practicable Date, respectively, have irrevocably undertaken to the Company and Digital Train to vote in favour of any resolutions to approve the Acquisition at the EGM. The resolutions proposed to be approved at the EGM are ordinary resolutions which are to be passed by simple majority of votes cast by Shareholders who are entitied to vote at the EGM. Accordingly, the Company considers that the risk of Condition (ii) above not being satisfied is low.

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, it is anticipated that 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 terms of the Offer will be financed from the Group's existing cash resources.

As at the Latest Practicable Date, the Company does not have any intention of issuing equity or undertaking any third party debt fund-raising (either for its own operating purposes, in connection with the Acquisition or otherwise).

Given that Liu Dejian and Zheng Hui, being executive Directors, through DJM held approximately 0.20% interest in Best Assistant Education which would be the beneficiary of financing from a wholly-owned subsidiary of the Company, Liu Dejian and Zheng Hui abstained from voting on resolutions of the Company approving the financing. As stated in the section headed "The Offer — Assets to be acquired in relation to the Offer" in the "Letter from the Board" of this circular, DJM and IDG Group (being substantial shareholders of the Company), held approximately 0.20% and 4.65% voting rights in Best Assistant Education, respectively, being less than 10% voting rights in aggregate in Best Assistant Education (excluding the indirect interest in Best Assistant Education which is held through the Company). Accordingly, Best Assistant Education is neither a connected subsidiary nor a commonly held entity pursuant to the Listing Rules, and such financing by the wholly-owned subsidiary of the Company to Best Assistant Education is not a connected transaction under the Listing Rules.

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.

Expected timetable of the Offer

The expected timetable for implementation of the Offer is set out as follows:

	2015 (HK time)
UK 2.7 Announcement	Friday, 10 July 2015
Posting of Offer Document (within 28 days of the UK 2.7 Announcement)	Thursday, 6 August 2015
Despatch of this circular, together with the notice of the EGM	Monday, 31 August 2015
First Closing Date (within 21 days from the posting of Offer Document)	On or before 8:00 p.m. on Thursday, 27 August 2015
Extended closing date of the Offer	On or before 8:00 p.m. on Tuesday, 15 September 2015
Offer is declared unconditional as to acceptances (within 60 days from the posting of Offer Document)	On or before Tuesday, 15 September 2015
Latest time for lodging form of proxy for the EGM (not less than 48 hours before time of EGM or any adjournment thereof)	3:00 p.m. on Tuesday, 15 September 2015
Date and time of the EGM	3:00 p.m. on Thursday, 17 September 2015
Announcement of poll results of the EGM	Thursday, 17 September 2015
Offer is declared unconditional in all respects (within 81 days from the posting of Offer Document)	3:00 p.m. on Monday, 21 September 2015 (*i.e. expected to be a few days after the EGM*)

IRREVOCABLE UNDERTAKINGS AND LETTER OF INTENT

EGM

DJM, Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc., being Shareholders holding approximately 38.40%, 5.29%, 3.82% and 2.80% of the entire issued share capital of the Company as at the Latest Practicable Date, 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 as at the Latest Practicable Date. In addition, the R.J. Cann Discretionary Trust beneficially holds 4,000,000 Promethean Shares, representing approximately 1.97% of the ordinary share capital of Promethean in issue as at the Latest Practicable Date, 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 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 11,421,048 Promethean Shares in aggregate, representing approximately 5.62% of the ordinary share capital of Promethean in issue as at the Latest Practicable Date.

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 (not including the pledged shares described above) which represent approximately 35.42% of the ordinary share capital of Promethean in issue as at the Latest Practicable Date.

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 as at the Latest Practicable Date. This letter of intent comprises an intention to accept or procure the acceptance of the Offer.

CONFIDENTIALITY AGREEMENT

The Company and Promethean entered into the Confidentiality Agreement pursuant to which each of the Company and Promethean has undertaken, among other things, to keep negotiations that led to the Offer and non-public business affairs that each party provided to the other confidential and not to disclose such information to third parties (other than to permitted parties) unless required by law or regulation or agreed by the parties. The Company confirms that this circular has included all material information known to the Company in relation to the Offer and the Acquisition to enable the Shareholders to make an informed decision as to whether or not and how to vote their Shares at the EGM. The Confidentiality Agreement is not relied on to withhold any material disclosures in this circular.

TERMS OF THE CO-OPERATION AGREEMENT

A summary of the principal terms of the Co-operation Agreement are set out below:

Date: 10 July 2015

Parties: (1) the Company

(2) Digital Train

(3) Promethean

Digital Train is an indirect non-wholly owned subsidiary of the Company. Further information on Digital Train is set out in the section headed "Information on the Group — Digital Train" in this circular below.

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 its connected persons (as defined in the Listing Rules).

Pursuant to the Co-operation Agreement, 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, the Company has agreed to pay (or to procure that Digital Train shall pay) to Promethean £3 million (equivalent to approximately HK$36.1 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 of approximately £537,200 in aggregate 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 PSP. 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 ON 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.

As at the Latest Practicable Date, 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 Latest Practicable Date. In the light of IDG Group's 13.56% interest in the Company and 4.65% voting rights in Best Assistant Education, IDG Group and its close associates 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, is the controlling shareholder of the Company with approximately 38.40% shares in the Company as at the Latest Practicable Date. 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 under the UK Takeover Code.

The Company and the Group

The Company, headquartered in Fuzhou City of the 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 as at the Latest Practicable Date was HK$8.63 billion (equivalent to approximately US$1.11 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 RMB962.8 million, operating profits of approximately RMB252.0 million and profit for the year of approximately RMB171.8 million.

INFORMATION ON 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 very few education technology companies globally that has (1) a hardware and software combined-solution including its flagship interactive displays (being its core revenue stream with a global K-12 market share of approximately 25% excluding China and Turkey, making it the second largest competitor) and interactive classroom software; and (2) sales and market reach to 100 countries, with the US and UK taking the majority share of its revenue.

Main Sources of Income

Promethean's core businesses include the sale of (i) hardware products — ActivBoards (interactive whiteboard) and ActivPanels (interactive flat panel); and (ii) software products — ActivInspire and "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 95") 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 Promethean'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 represents a minimal 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

(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.

Main Markets of Operation

Promethean is a significant player in the interactive display market for the K-12 education segment and continues to be so as the market moves toward interactive flat panel displays as the front of class technology of choice. The same can be said of the student response market and Promethean's online teacher community, Promethean planet, with over 2.1 million members. This provides the foundation for Promethean's ClassFlow.

For the twelve-month period ended 30 September 2014, Promethean's global market share (excluding China and Turkey) was 25.1%. Although Promethean has grown its market over the twelve months to 30 September 2014, overall volume sales in that period were 13.6% lower than in the twelve months to 30 September 2013.

In terms of geographic focus, the main market for Promethean is North America. In 2014, revenues from this region were £65.9 million (equivalent to approximately HK$792.4 million) and represented 55.8% of total Promethean Group revenues. The remaining group revenues were derived from Promethean's International operations of which the UK represented the largest proportion of revenue with £11.9 million (equivalent to approximately HK$143.1 million).

As a result of the majority of Promethean's products being manufactured in China, as at 30 June 2015, Promethean had (i) operations in the form of offices, warehouses, service centres, accommodation and production plants in Shenzhen and (ii) approximately, 107 employees and business relationships with hardware manufacturers. Promethean also markets and sells its products in China but revenue generated from these operations is minimal. Such operations in China do 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. The Company understands and has been advised that there are no material licenses and permits which are required for the operations and business of Promethean.

As at 30 June 2015, Promethean had approximately 597 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.

The following table shows a summary of the key audited consolidated financial information of Promethean Group 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**	
	£'000	*(approximate equivalence in HK$'000)*	*£'000*	*(approximate equivalence in HK$'000)*	*£'000*	*(approximate equivalence in HK$'000)*
Revenue	118,174	1,420,889	141,158	1,697,241	157,001	1,887,733
EBITDA	839	10,088	9,407	113,107	5,102	61,345
Loss (before taxation)	(9,648)	(116,005)	(6,706)	(80,631)	(165,430)	(1,989,081)
Loss (after taxation)	(16,502)	(198,415)	(5,797)	(69,701)	(159,825)	(1,921,688)

The audited net assets of Promethean as at 31 December 2014 were approximately £36,623,000 (equivalent to approximately HK$440,344,000).

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 £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 adjusted 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 to 3 years to diversify its revenue streams and invest in software development. The combination of these market shifts and investment in new products has resulted in losses after taxation by Promethean and cash outflows.

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 prices from £1,036 in 2012 to £924 in 2014; and decline in sales of learner response systems from 581,103 in 2012 to 291,552 in 2014. The resulting effect in revenues has been a decline from approximately £157.0 million in 2012 to approximately £118.2 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 £12.6 million and £15.4 million annually in the improvement of existing products and the development of new products.

The significant loss for the year ended 31 December 2012 primarily resulted from a goodwill impairment of £140.5 million as a result of Promethean's re-appraisal of its assets in view of the economic conditions at the time. As at 30 June 2012, Promethean re-appraised the carrying values of its assets in view of the economic conditions in the US and Europe at the time. Consequently the goodwill, the vast majority of which arose from the 2004 investment by Apax Partners in Promethean, was fully impaired and was written off, resulting in an exceptional non-cash impairment charge of £140.5 million. For further details of the impairment of goodwill, please see Note 15 — "Intangible assets — Goodwill impairment" at pages II-28 and II-29 of "Appendix II — Financial Information of the Promethean Group" to this Circular.

Although Promethean's financial performance has been diminishing over the past few years, the Company believes that the 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.

Directors and Senior Management of Promethean

Philip Rowley (Non-executive Chairman)

Phlip Rowley is appointed as a non-executive director of Promethean in October 2009, and is appointed as the chairman in May 2014. Philip is the chairman of the nomination committee, and a member of audit committee and remuneration committee of Promethean. Philip is also chairman of Livestation Limited, Pouncer Media Limited and the London Firebird Orchestra. He was a non-executive director of ARM Holdings plc and chairman of HMV Group plc. Prior to that Philip held a number of roles in AOL Europe, the internet services provider, including chairman and chief executive. He was group finance director of Kingfisher plc from 1998 to 2000 and deputy chief executive and finance director of Kingfisher's General Merchandise Division from 2000 to 2001. Other previous executive roles include executive vice president and chief financial officer of EMI Music Worldwide.

Philip is a member of the Institute of Chartered Accountants and holds a Bachelor of Science degree in chemical engineering from Imperial College, London.

Jim Marshall (Executive Director and Chief Executive Officer)

Jim Marshall is appointed as an executive director of Promethean in July 2012. Jim previously served as CEO of SpectrumK12, a company that produces software solutions to improve the performance of at-risk and special education students. The company was acquired by Scantron/Harland Clark Holdings in 2010. Prior to leading SpectrumK12, he was CEO at Agentis Software and took the company through a management buyout to sustained profitability.

Jim has also held a number of high-profile executive positions, including vice president of Apple's US Education Division, and has extensive experience of helping technology companies to build and develop accomplished management, sales, marketing, professional services and channels teams.

Jim sits on the board of the Cobb Schools Foundation and is a former Director of the Florida Council on Economic Education, an organisation that teaches fundamental finance and business concepts to high school students. He has received public recognition for his work in education in the states of Michigan, Maine, Florida and Georgia.

Jim holds a Bachelor of Arts degree in management and general sciences from the University of South Florida.

Ian Baxter (Executive Director and Chief Financial Officer)

Ian Baxter is appointed as an executive director of Promethean in February 2014. Ian joined Promethean in June 2009 as group financial controller. Prior to this, he was group financial controller of Volex plc, a leading global producer of electronic and fibre optic cable assemblies and electrical power cords. Before that, Ian held senior roles at Scapa Group plc, becoming CFO Northern Europe.

Ian is a member of the Institute of Chartered Accountants and holds an Honours degree in economics and econometrics from the University of Nottingham.

Lord Puttnam (Senior Independent Director)

Lord Puttnam is appointed as the senior independent director in September 2006, and is a member of the audit committee, remuneration committee, and nomination committee of Promethean. David spent 30 years as an independent producer of award-winning films including The Mission, The Killing Fields, Local Hero, Chariots of Fire, Midnight Express, Bugsy Malone and Memphis Belle, but retired from film production in 1998 to focus on his work in public policy which relates to education, the environment and "creative and communications" industries. He founded the National Teaching Awards in 1998 and served as the first Chair of the General Teaching Council 2000—2002. He was President of UNICEF UK 2002—2009 and Deputy Chairman of Channel 4 Television 2006—2012.

David is chairman of Atticus Education, an online education company he founded to deliver interactive seminars on film and a variety of other subjects to educational institutions around the world. He is also chair of the TSL Advisory Board, chancellor of the Open University, president of the Film Distributors' Association, deputy chairman of Profero, a trustee of the Eden Project and the Prime Minister's Trade Envoy to Vietnam, Laos, Cambodia and Burma.

David was created a life peer in 1997 and has received over 40 honorary degrees from universities in the UK and overseas.

Graham Howe (Non-executive Director)

Graham Howe had been appointed as the chairman in July 2005, and is appointed as a non-executive director in May 2014. He is a also a member of the nomination committee of Promethean. Graham was a co-founding director of Orange, having joined with Hans Snook in 1992 to plan the strategy that led to the launch of Orange in April 1994. Initially as chief financial officer, Graham led Orange's debut flotation in March 1996. In June 1996, Orange became the youngest company to enter the FTSE 100, with Graham as one of the youngest ever FTSE 100 Finance Directors. Whilst at Orange, Graham was also deputy chief executive and chief operating officer before leaving in 2003. Previously, Graham held senior positions at Hutchison Telecom, First Pacific Company and Touche Ross Management Consultants. He has also served on the board of Cable and Wireless PLC as senior independent director.

Graham is a member of the Institute of Chartered Accountants and holds a Bachelor of Commerce degree from the University of Birmingham.

Judy Verses (Non-executive Director)

July Verses is appointed as a non-executive director of Promethean in March 2014, and is the chairman of remuneration committee and a member of nomination committee of Promethean. Judy is the president of Global Enterprise and Education for Rosetta Stone, responsible for all institutional business across all geographies. She has been with Rosetta Stone since October 2011. Judy has extensive experience across business, government, education and consumer sectors in technology, education and communications industries. She joined Rosetta Stone from Blackboard Inc. where she served as president and chief client officer responsible for global sales and marketing. Prior to that, she held several senior leadership roles at Verizon.

Judy holds a Bachelor of Science degree in business administration from the University of Connecticut.

Jackie Yeaney (Non-executive Director)

Jackie Yeaney is appointed as a non-executive director of Promethean in March 2014, and is the chairman of audit committee and a member of nomination committee of Promethean. Jackie is executive vice president, Strategy and Corporate Marketing for Red Hat, Inc. Prior to joining Red Hat, Jackie held CMO roles at PGi, a global communications company; EarthLink; and HomeBanc Mortgage Corporation. She was also the managing director of Consumer Marketing at Delta Air Lines. Before her career in marketing she spent several years with the Boston Consulting Group and was a captain in the US Air Force.

Jackie holds an MBA from the Sloan School of Management at MIT and a Bachelor of Science degree, *magna cum laude,* in electrical engineering from Rensselaer Polytechnic Institute.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon registration of transfer of the Sale Shares by the relevant regulatory authority, Promethean will become a direct wholly-owned subsidiary of Digital Train and an indirect non-wholly owned subsidiary of the Company. Accordingly, the financial results, assets and liabilities of the Promethean Group will be consolidated into the Group's accounts. As referred to in "Appendix III - Unaudited pro forma financial information of the Enlarged Group" to this circular, on the basis of the notes set out therein and for the purposes of illustrating the effects of the Acquisition, the financial effects of the Acquisition on the earnings and assets and liabilities of the Group would be as follows:

Earnings

As extracted from the Company's annual report for the year ended 31 December 2014, the Group recorded an audited consolidated net profit attributable to owners of the Company of approximately RMB176.7 million for the year ended 31 December 2014. According to the unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group as set out in Appendix III to this circular, the unaudited consolidated loss attributable to owners of the Company for the year ended 31 December 2014 would have been approximately RMB91.4 million if the Acquisition were completed on 1 January 2014.

Assets and Liabilities

The unaudited consolidated total assets and total liabilities of the Group as at 30 June 2015, as extracted from the Company's interim results announcement dated 27 August 2015, were approximately RMB5,282.4 million and RMB819.1 million respectively. According to the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix III to this circular, if the Acquisition were completed on 30 June 2015, the total assets of the Enlarged Group would have increased by approximately RMB479.3 million, primarily attributable to: (i) the consolidation of the assets of the Promethean Group, (ii) goodwill and intangible assets generated from the Acquisition and offset by (iii) cash expected be paid out by the Group to settle part of the total consideration for the Offer; the total liabilities of the Enlarged Group would have increased by approximately RMB506.2 million, primarily attributable to the consolidation of the liabilities of the Promethean Group.

RISK FACTORS

Set out below are the principal risk factors which may be associated with the Offer and the Acquisition, being the risks relating to the industry, business and operation of Promethean:

(1) Reliance on Key Individuals and Succession Planning

Reliance on a small number of key individuals, particularly the chief executive officer, and the failure to successfully plan to replace them in the event that they become unavailable for any reason, represents a significant risk to the business.

This is particularly relevant to Promethean at the present time while it undergoes a period of strategic transformational change and as it develops new and potentially business-critical products in specialist technical areas.

(2) **Transformation of Corporate Strategy**

Promethean is currently in a state of strategic transformation whereby the company is transitioning from being predominantly an education hardware provider to being a provider of holistic education solutions, which include hardware, software and professional development and consultancy services.

However, hardware remains the Promethean Group's primary source of earnings and the strategic challenge is the successful growth of software and professional services to generate recurring revenue streams.

In this context, it is possible that Promethean may fail to select the correct strategies to successfully achieve its objectives.

Additionally, adequate skill sets and resources may not be in place to successfully execute the strategies required to achieve objectives efficiently and effectively.

(3) **Possible Change in Education Technology Market**

Promethean's business performance is dependent upon the rate of adoption of its core technology, presently interactive display systems and student response systems, in the worldwide K-12 market.

Change in the education technology market continues at a rapid pace as innovative new hardware and software products are introduced in key markets by a range of existing and new competitors.

The way in which students learn is also changing, with many bringing their own mobile devices into classrooms and methods such as 'flipped' classrooms contributing to this development (i.e. self-study outside the classroom environment followed by deeper application and understanding in the classroom).

Developing and bringing to market new products and resources is complex, costly and time consuming with no certainty of a sustainable revenue stream at the end of the process.

There is a risk that Promethean may fail to successfully innovate or to identify and react quickly enough to disruptive technological developments of new and existing technologies of others.

(4) **Competition and Global Economic Conditions**

Promethean operates in highly competitive markets and encounters aggressive competition on price across the range of its products and services.

Demand for education technology continues to be affected by global economic conditions, which has seen austerity measures impact a number of Promethean's major markets, particularly the US and Europe. This has led to greater uncertainty as to the level and timing of future funding for education technology.

Interactive display systems may become increasingly commoditised and alternative methods of teacher and student interaction may become more prevalent.

Some of the Promethean Group's competitors may have significantly greater resources than Promethean, which may allow them to invest more heavily in new and emerging technologies. Others, especially in the software market, may be smaller businesses and they may be able to respond to technological or market changes more rapidly and at lower cost than Promethean is able to.

Some competitors may bring to market low-cost, lower specification products as a means to enter the global marketplace for interactive technologies, or introduce new technology that competes for a share of existing education technology budgets.

(5) **Liquidity, Credit Defaults and Capital Structure**

Promethean utilises credit from suppliers in managing its working capital. Certain of these suppliers extending credit may themselves use credit insurance to mitigate their risk. A change in the credit rating of Promethean could therefore impact the availability of credit from suppliers, resulting in increased working capital levels.

Promethean is exposed to credit default risk through the credit lines it extends to its distributors and resellers.

The general economic climate also increases the risk that Promethean's distributors and resellers may experience financial difficulties, leading to disruption of Promethean's business, lost or deferred sales and/or increased bad debt costs.

(6) **Business Disruption and Product Availability**

Disruption to Promethean's business affecting the availability of products or services could occur internally or externally through the supply chain or distribution network.

Promethean's manufacturing facility in Shenzhen, China, could be affected by natural disasters, infrastructure failures and other natural or man-made disruptive events.

Promethean's business model is built on developing and maintaining an effective network of third party distributors and resellers in the markets in which the Promethean Group operates. This indirect sales model means that Promethean's sales performance is highly dependent on the efforts and capabilities of its distributors and resellers in generating leads, managing them through to completion and providing high levels of service in their installation of products and after-sales support.

Competition for the services of good quality distributors and resellers in a number of Promethean's markets is strong. Promethean may not be able to find partners with the correct skill sets, particularly as the Promethean Group expands the range and nature of the solutions it sells into software and professional services.

The Promethean Group is reliant on its information technology systems for management of key operating processes, effective communication and call centre effectiveness.

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$3,488.4 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 commercialization 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.

- Dr. Leung Lim Kin, Simon, the vice chairman of the Company, is responsible for the overall strategic layout, direction of technical products and business operation of all the education-related business of the Company.

  Dr. Leung is a veteran in both information technology and telecommunications industries and has more than 30 years of industrial experience in multinational companies in overseas markets. Prior to joining the Company, Dr. Leung was the chief executive officer of Harrow International Management Service Limited from 2012 to 2015, responsible for school management, student enrolment outside the UK, operation of schools in Bangkok, Beijing and Hong Kong, introduction of educational programmes, vocational training, training of teachers and development of online education. He was also the chief executive officer of Microsoft Greater China region from 2008 and 2012 and the president of Motorola Asia Pacific Limited from 1999 to 2008, respectively.

  In addition to the above, Dr. Leung has strong ties with the education sector, having been an advisor to the Richard Ivey School of Business, University of Western Ontario; a Council member of Tung Wah College; and a member of the International Advisory Committee to the Hong Kong Polytechnic University. He was a governor of the Upper Canada College in 2009 and a governor of Tung Wah College in 2013.

Promethean's and the Company's management teams expect to review and (where appropriate) refine any plans or strategy for the development and enhancement of Promethean's brand after completion of the Offer. 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. As at the Latest Practicable Date, the Company has not made any commitment as to the form and amount of support that would be required by or provided to Promethean.

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.

However, the boards of the Company and Promethean recognise that in order to achieve some of the expected benefits of the combination of the Group and the Promethean Group outlined above, it will be necessary to perform a detailed review of how best to integrate the Promethean Group into the Group in light of factors including market environment, financial performance and the pace of business development opportunities.

The preliminary analysis carried out to date by the Company has indicated the potential to generate cost-savings in areas where there is an overlap of functions between the Group and the Promethean Group (including distribution and certain administration functions). The cost savings are likely to involve redundancies and reduction of places of business and may also include the partial or complete rationalisation of certain of those places of business (including redeployment of Promethean's fixed assets). The cost savings scenarios currently being evaluated by the Company anticipate potential cost savings of up to approximately £4.7 million (equivalent to approximately HK$56.5 million) within the next 12 months, which include a potential headcount reduction in back office functions of up to approximately £1.2 million (equivalent to approximately HK$14.4 million) (which will in part result from the proposed delisting of Promethean following completion of the Offer but, for the avoidance of doubt, does not include any savings on listing costs). That being said, the Company's evaluation of these cost savings scenarios remain at a preliminary stage and the Company has not yet developed proposals as to how such cost savings will be implemented, including how specific individuals or locations may be affected by the Company's potential cost savings plans.

The non-executive directors of Promethean have confirmed that they intend to resign as Promethean Directors upon the Offer becoming or being declared wholly unconditional. No director is to be appointed by the Company to the board of Promethean upon completion of the Acquisition.

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, and has not reached any agreement, arrangement or understanding 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.

Deferred disclosure of certain information on Promethean and/or the Enlarged Group

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

(a) whilst the board of directors of Promethean has recommended the Offer to the Promethean 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 this 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 UK;

(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 disclosure of information which is deferred includes (i) the consolidated audited results of Promethean, (ii) the unaudited pro forma consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and consolidated statement of cash flows of the Enlarged Group, in each case, for a financial period ended not more than 6 months before the date of this circular, and (iii) the working capital statement and indebtedness statement of the Enlarged Group.

Accordingly, the following information is included in this circular in accordance with Rule 14.67A(2) of the Listing Rules:

(a) published audited financial information of Promethean Group for the three years ended 31 December 2012, 2013 and 2014, which are set out in Appendix II to this circular;

(b) the published unaudited consolidated financial information of Promethean Group for the six months ended 30 June 2015 as set out in Appendix II to this circular; and

(c) certain information of the Group as set out in Appendices I and IV to this circular pursuant to Rule 14.67A(2)(b) of the Listing Rules.

IMPLICATIONS UNDER THE LISTING RULES

As one of the applicable percentage ratios (as defined in 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 therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

EGM

The EGM will be held for Shareholders to consider and, if thought fit, approve the Acquisition and the transactions contemplated thereunder. As disclosed in the section headed "Information on the Group — Digital Train" in this circular, IDG Group and its close associates will be required to abstain from voting of any resolutions to approve the Acquisition pursuant to the Offer at the EGM. As disclosed on page IV-4 in "Appendix IV — General Information" to this circular, 78,333,320 shares of the Company are held by IDG Group and its close associate, being IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., which are interested in approximately 2.19%, 10.45%, 2.13% and 0.97%, respectively, in the Company and representing in aggregate of approximately 15.74% of the total issued shares of the Company as at Latest Practicable Date. 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. As disclosed in the section headed "Irrevocable Undertakings and Letter of Intent — EGM", DJM, Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc., being Shareholders holding approximately 38.40%, 5.29%, 3.82% and 2.80% of the entire issued share capital of the Company as at the Latest Practicable Date, respectively, have irrevocably undertaken to the Company and Digital Train to vote in favour of any resolutions to approve the Acquisition at the EGM.

A notice convening the EGM to be held at Plaza Meeting Room, Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 17 September 2015 at 3:00 p.m. for the purpose of considering and, if thought fit, approving the Acquisition and the transactions contemplated thereunder is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM in person, you are requested to complete and return the accompanying proxy form to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for holding the EGM (or any adjournment thereof). The return of the proxy form will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) if you so wish.

RECOMMENDATION

The Board considers that the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board therefore recommends the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition and the transactions contemplated thereunder as set out in the notice of EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
NetDragon Websoft Inc.
Liu Dejian
Chairman

1. FINANCIAL INFORMATION

Financial information on the Group for (i) each of the three years ended 31 December 2012, 2013 and 2014; and (ii) the six months ended 30 June 2015 are set out in the (a) annual reports of the Group for the years ended 31 December 2012 (pages 107 to 200), 2013 (pages 112 to 224) and 2014 (pages 95 to 204); and (b) the interim results announcement of the Company for the six months ended 30 June 2015 dated 27 August 2015, respectively, which are published on both the website of the Stock Exchange (http://www.hkex.com.hk) and the website of the Company (http://ir.netdragon.com) respectively.

2. WORKING CAPITAL

The Directors of the Company are of the opinion that, after taking into account the financial resources available to the Group including the available credit facilities, the Group's internally generated funds and the cash flow impact of the Acquisition, the Group has sufficient working capital to satisfy its requirements for at least the next twelve months following the date of this circular.

3. INDEBTEDNESS

At the close of business on 31 July 2015, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding bank borrowing of approximately RMB236.7 million which are unguaranteed and secured by pledged bank deposit of the Group, and convertible preferred shares of approximately RMB260.0 million.

Save as the aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, other similar indebtedness, liabilities under acceptances, acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 31 July 2015.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group further consolidated its market position in the gaming space and pushed forward with the development of its online education platform.

With respect to online games, as the Group continues to optimize the game portfolio and launch new methods for playing popular games and new contents that inspire players, the games business continues its growth. With the deep excavation of the value of flagship games by the Group, the advantages of the brand strategy have been extended and the market position and player loyalty have also been consolidated. With respect to new games, COS* (英魂之刃), a MOBA micro-client game developed in-house by the Group, recorded a significant increase in the growth of users and remarkable operating indicators after the official beta testing was begun in January 2015. It is expected that with the launch of the promotional activity, the game operating indicators will continue to rise. With respect to mobile games, Eudemons Online Pocket Version* (魔域口袋版), recorded strong performance immediately after the official beta testing was begun in January 2015 with potential to become another major revenue source in the future. In the second half of 2015, the Group will launch a variety of mobile games to further enrich its product lines.

The new strategic focus of the Group remained on the online education business. The Group recently focused on developing products that met the demand of K-12 teachers and students and fully extended to cover the lifelong learning system. The Group plans to penetrate the market through the comprehensive education solutions which are expected to be officially launched to the market in the second half of 2015. The Group's ability to design integrated Internet and mobile products and its in-depth understanding of the education industry make the learning process simple and effective, which satisfies the concern and demand of a wider range of people for education. In the future, the Group will face the global market and opportunities for cooperation with a more open attitude and create a good ecological education system for the development of online and mobile education.

5. MANAGEMENT DICUSSIONS AND ANALYSIS OF THE GROUP

Set out below is the discussion and analysis of the performance of the Group for the three years ended 31 December 2012, 2013 and 2014, and for the six months ended 30 June 2015, which are extracted from the 2012, 2013 and 2014 Annual Report of the Company and the interim results announcement of the Company for the six months ended 30 June 2015:

(1) For the year ended 31 December 2012

Business Review

During 2012, the Group continued its effort on maintaining its leading position in the PRC online game industry, persistently followed the strategy of strengthening the game development and operation capability of its core business, with the aim to grasping timely upcoming market opportunities of online game industry in the PRC and overseas.

The Group followed the growing trend of the PRC mobile Internet industry, continued to concentrate on developing mobile Internet business, and put in effort to make it become another new business growth point in addition to online game.

Launching of new games

During 2012, the Group, based on its strong games research and development capabilities and spirit of continuous innovation, kept on developing new online games.

Dungeon Keeper™ Online (地下城守護者OL)

Starting from 2010, the Group had carried out four closed beta testings for its first 3D MMORPG, Dungeon Keeper™ Online (previously named as World of Dungeon Keeper™ (地下城守護者世界)), and has carried out open beta testing in April 2012.

Development and licensing of existing games

The Group put emphasis on lengthening the lifespan of its existing games. Through providing a variety of virtual items and game tasks to players, continuously launching timely upgrades to the content of various games, higher interest in the games among the players can be kept, and the popularity of the online games can be bolstered.

During 2012, the Group had continued to introduce new expansion packs to enrich its existing games. Two new Chinese expansion packs of Zero Online (機戰) called "Version of Pet Function" (騎寵功能版本) and "Version of the Worms Mission Function Needs"* (蟲族任務功能需求版本) were released in April and May 2012, respectively. New expansion packs of Eudemons Online (魔域) called "Legacy of Asgard"* (神域爭霸) and "Dead Souls of the Termination Day"* (末日亡靈) were released in April and September 2012, respectively, enhancing the strong attractions of this game to players. The new expansion pack for the Disney Fantasy Online (夢幻迪士尼) was released under two separate phases in August and September 2012. Tou Ming Zhuang Online (投名狀OL) released its new expansion pack "Supreme Lady"* (至尊紅顏) in November 2012. Heroes of Might and Magic Online (英雄無敵在綫) also released its new expansion pack "Mystery of the Wanderer"* (流浪者之謎) in December 2012.

For the expansion of overseas markets, the Group had continued to maintain its leading advantages among the PRC's online game operators and has launched several online game products in various countries and regions with market potential during 2012. In respect of the self-operated games, the Group had launched the expansion pack "Invasion of Pirates"* (海盜來襲) for Conquer Online (征服) in English, French, Spanish, Arabian and Traditional Chinese versions. The Group had also launched various expansion packs in English consecutively in 2012, for example, "Catastrophe of the Worms"* (蟲族浩劫) of Zero Online (機戰) was launched in August and "Undead Mage"* (亡靈巫師) of Eudemons Online (魔域) was launched in December. The Group expected the provision of additional in-game items and premium features would bolster the popularity of its online games.

The Group had entered into other overseas markets through close cooperation with local major operators. The Group had licensed the operation of its own in-house developed online games in various countries and regions, including Hong Kong, Malaysia, Macau, Taiwan, Brazil and Vietnam, so as to attract more users. The Group had launched the expansion pack "World Destruction by Demons"* (滅世魔劫) of Eudemons Online (魔域) in Malay in March 2012.

In November 2012, the Group launched its strategically invested tablet application item, 91 Homes PC version, on the smallest size customer terminal via cloud downloading and its mobile equipment version was also launched subsequently in December for trial operation. Both were well received in the Fujian and Guangxi markets. This project aimed to integrate IT thinking and technology and leisure experience of online games with the traditional home decoration industry chain, so that home purchasers, designers, furniture and construction materials suppliers, as well as developers, could provide faster and better value added services to users on this platform.

Mobile Internet Business

During 2012, the mobile Internet business had become an important business of the Group, and the proposed spinning-off of its mobile Internet business helped the Group to realise the maximisation of the potential value. Besides, in along with the research and development and promotion of own-developed and third party famous software products and games for smart-phones as well as the increasing revenue from advertisements, mobile games and smartphone platforms, the strategic importance of the Group's mobile Internet business had become another core business portfolio of the Group.

In 2012, the Group continued to launch own-developed software products for smart-phones, which cover a wide range of smartphone platforms. As of December 2012, the increase in the total number of users of the 91 Series smartphone applications (including 91 Assistant* (91助手) (previously named as "91 PC Suite") and HiMarket* (安卓市場) etc.), 91 Panda Reader* (91熊貓看書), 91 Launcher* (91桌面) (previously named as "91 Desktop" 91桌面), the advanced smartphone applications offered in the PRC, reached historical new record highs.

Among these applications, 91 Assistant* (91助手) (previously named as "91 PC Suite") was the first to resolve the software installation problem under iOS6 in the industry and became the one of the perfect smartphone application marketplace store product supporting iOS6. In addition, it was a mobile device management tool and a mobile apps store for enhancing product competitiveness and user experience at the same time.

During 2012, 91 Launcher* (91桌面) (previously named as "91 Desktop" 91桌面) introduced the iOS version with multiple functions and launched Android V3.0 which was a totally new creation, this version supported desktop item applications and customized enhancement DIY. 91 Launcher* (91桌面) (previously named as "91 Desktop" 91桌面) would continue to improve on performance, message delivery system and external cooperation.

During 2012, 91 Panda Reader* (91熊貓看書) had launched own-developed products and completed the establishment of backing platform for authors and editors of own-developed contents, as well as started cooperation with many large companies, with a view to provide better quality publications for readers.

HiMarket* (安卓市場), being a mandatory market for third party applications in the preloaded menu of customized handsets of telecommunication groups, had launched the smart TV application, and had established cooperative relationships with major domestic telecommunication players and large-scale IT chain shops to share quality channels to facilitate smooth delivery of HiMarket* (安卓市場) to end users.

The Group's smartphone platform experienced fast growth during 2012, and diversified versions of SDK based on joint communication channels, Windows 8 platform, Unity3D and FlashAIR, etc., were launched consecutively. Endeavours were also made to create a PC version of the "18183 mobile games forum" of the 17173 mobile games zone, which was launched online officially at the end of August, and the mobile version was also launched at the end of December.

During 2012, the Group had further introduced the updated versions of own-developed cross-platform mobile games, such as 91 Farm* (91農場) and 91 Pasture* (91牧場) as well as Hengha Warring States* (哼哈三國) and Warring States* (戰國天下). The players could via these games have a series of interactions with their friends, and the loyalty of the game players to mobile games could be increased significantly.

In line with the development of a business model in the mobile Internet industry, the Group had strived for establishing a platform-based operations model by integrating its research and development, operations and payment channels. The Group would focus on developing the mobile Internet market in the PRC by providing full support to the business development, innovation and promotion of mobile Internet applications, contents and services for the domestic and foreign small and medium enterprises and individual developers through the Group's smartphone platform. The Group had also through cooperation with other mobile Internet enterprises, developed and strengthened the content of its smartphone platform.

As of 31 December 2012, 920 employees of the Group were engaged in mobile Internet business, representing approximately 27.7% of the overall staff headcount, which would ensure the Group's leading position in the mobile Internet business sector in the future.

Expanding of business lines

Open Education Projects in Fujian

Fujian Tian Yu Education (now known as Fujian Huayu) in which the Group was interested was a professional company focusing on research and development of online education platform and operation of education products. Open education is an education mode that was predominant by and had received strong support from the PRC government, and an intense product of education and scientific technology advocated by the Ministry of Education and the government of Fujian Province. Leveraging on its extensive experience in internet, particularly the mobile internet industry, the education platform developed and various users, while integrating the up-stream and down-stream education resources and government resources, the Group had generally, specifically and at all times satisfied the learning and the demand for learning to manage by competent educational authorities, schools, teachers, students and parents, as well as the demand for occupational training by all departments at all levels, which in turn, realizing the dream of "Life Learning" of all the peoples so that the construction of a learning community in Fujian would be materialized. In the meantime, the mechanism of switching academic credits, being the "bank of academic credits", as a critical mechanism for reforming and effective implementation of open education in Fujian Province, was developed by the Group.

Project in the Haixi Animation Creativity City (the "Project")

In 2010, the Group had actively participated in the Project, which was a major development project of creativity industry in the Haixi District implemented by the PRC government and planned and supported by the government of the Changle City of Fuzhou in Fujian Province.

The Group acquired land located at Dahe Village of Hunan Town and Shibi Village of Wenling Town, Changle City, Fujian Province, the PRC in 2012.

Project in the Haixi Animation Creativity City was a key project under construction in Fujian Province in 2013, it was also a key leading project in the cultural creativity industry in the Linkonggang Economic Zone of Fuzhou City. Its landmark building, TQ Building* (天晴樓) (now known as Enterprise* (企業號)), and related core zone ancillary facilities would be under construction in 2013. The land for Phase 3 project had been acquired smoothly through listing and was completing the land supply procedure. In 2013, the Group would also select a site adjacent to the project zone for the implementation of the Animation Education College project to form an integrated industry complex for production, education and research activities. Under the support of preferential policies from the provincial and municipal governments, Haixi Animation Creativity City was set to become a key zone for creativity industries in the southeast coastal region.

As at 31 December 2012, the Group had capital commitments in relation to the development of the Project of approximately RMB339.4 million, of which the Group had paid in approximately RMB215.0 million.

Financial Review

Liquidity and Capital Resources

As at 31 December 2012, the Group had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB1,731.3 million (31 December 2011: RMB1,468.9 million), out of which about RMB194.4 million (31 December 2011: Nil) has been pledged to bank to secure loan.

As at 31 December 2012, the Group had net current assets of approximately RMB1,369.3 million as compared with approximately RMB1,329.7 million as at 31 December 2011.

In the management of the liquidity risk, the Group monitored and maintained a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigated the effects of fluctuations in cash flows. The Group's financial liabilities (including trade and other payables, amounts due to related companies, amount due to an associate and secured bank loan) would be settled within 12 months from the end of 2012. The Group's policy was to regularly monitor current and expected liquidity requirements to ensure that it maintained sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Based on the assessment of the management, liquidity risk encountered by the Group was minimal.

Gearing Ratio

The gearing ratio (consolidated bank loan/consolidated total equity) was 0.13 (31 December 2011: Nil). As at 31 December 2012, total bank loan of the Group amounted to approximately RMB183.6 million was fixed rate loan.

Capital Structure

As at 31 December 2012, the Group's total equity amounted to approximately RMB1,416.0 million (2011: RMB1,498.9 million).

Foreign Currency Risk

The Group operated mainly in the PRC. Most of its monetary assets, liabilities and transactions were principally denominated in the functional currency of respective group entities, which was RMB. However, the Group also had operations in Hong Kong and the United States of America ("USA") and the business transactions conducted there during 2012 were mainly denominated and settled in HK$ and US$ respectively. The Group did not have hedging policy in respect of the foreign currency risk. However, the management closely monitored foreign exchange exposure to ensure appropriate measures were implemented on a timely and effective manner. In this respect, the Directors considered there was no significant currency mismatch in the Group's operational cash flows and the Group was not exposed to any significant foreign currency exchange risk in its operation.

Employee and Emolument Policy

As of 31 December 2012, the Group's overall staff headcount was 3,324. The emolument policy of the employees of the Company was set up by the Board on the basis of their merit, qualifications and competence.

The emoluments of the senior management of the Company were recommended by the remuneration committee of the Company and were decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The emoluments of the Directors were recommended by the remuneration committee of the Company and were decided by the Board, as authorised by shareholders at the annual general meeting of the Company.

The Company has also adopted a share award scheme in which selected employees of the Group are entitled to participate, and a share option scheme pursuant to which the eligible participants as defined in the scheme are entitled to participate.

(2) **For the year ended 31 December 2013**

Business Review

During 2013, the Group remained committed to maintaining its leading market position in the PRC's online game industry. By adhering to the strategy of strengthening the research and development ("R&D") and operation capabilities of the games to promptly capture market opportunities emerging from the PRC and the overseas online game industries, especially those emerging continuously from the mobile Internet environment, quality online game products were provided to global players.

Meanwhile, the mobile Internet business developed by the Group, in complying with the growth momentum of the mobile Internet industry, also continued to lead within the industry during 2013, and laid a stronger financial foundation for the Group's future strategic expansion after the Group's successful disposal of part of the business to Baidu (Hong Kong) Limited ("Baidu HK", a wholly-owned subsidiary of Baidu, Inc.).

In response to intensifying competition in the online game industry, the Group adopted different ways to extend the lifespan of current game products and focus on enriching its product reserves, thereby ensuring its future leading competitive advantage in the industry.

Development of existing MMORPG

During 2013, the Group continued to offer a wide range of quality MMORPG products to players leveraging its strong self-developed R&D capabilities for games and ever innovating corporate culture.

The Group always strives to offer more innovative virtual items and game tasks to players in a timely manner by introducing new expansion packs, and continuously upgrading the contents of all games in operation to improve their popularity and maintain players' interest in the games; hence lengthening the lifespan of existing games and generating stable cash flows for the Group.

During 2013, the Chinese expansion pack of Eudemons Online (魔域), "Love in a Fallen City"* (傾城之戀), officially started its beta testing (April 2013) and the introduction of "Marriage and Love System"* (婚戀系統) further enhanced the emotional connections between players, and improved various key indicators of the games. Moreover, "Gods Recovery"* (諸神復蘇), another expansion pack of Eudemons Online which began beta testing in October 2013, gained wide popularity among players and showed that with constant upgrade to its content, this typical game has great appeal to players. Other major games of the Group also released their latest expansion packs in response to the demand of players. The expansion pack of Zero Online (機戰) "Advent"* (救世主) was released in May 2013; the expansion pack of Way of the Five (開心) "Catastrophe in Fairland"* (仙界浩劫) was released in July 2013 and the expansion pack of Tou Ming Zhuang Online (投名狀Online) "Ce Ma Tian Xia"* (策馬天下) was released in August 2013. The successive releases of the above new expansion packs had lengthened the lifespan of the games.

For expansion of overseas markets, as a pioneer among the PRC's game makers expanding into overseas markets, the Group continued to maintain its leading edges among the PRC's online game operators during 2013. It operated its online game products in various countries and regions with market potential. Through on-going upgrades of multilingual expansion packs and focusing on R&D and operation efforts, the Group strengthened its market shares of its key flagship game products in overseas markets, thereby constantly generating revenue from overseas markets and reducing pressure arising from intensifying competition in the domestic online game market.

During 2013, Conquer Online (征服), the flagship product of the Group in overseas markets, released its two expansion packs for overseas versions "Eastern Assassinator"* (東方刺客) and "Brotherhood: It was the best of times, it was the worst of times"* (江湖:混沌年代), in the first quarter and the third quarter of 2013, respectively, with several language versions including English, French, Spanish and Arabian. This strengthened the competitiveness of the game in various countries and regions. In addition, a comprehensive upgrade was made to the overseas versions of Conquer Online (征服) in the fourth quarter of 2013. The upgraded game offered better sense of sight and operating experience which cater to the needs of current overseas players, further enhancing its market shares in overseas markets.

Mobile Internet Business

During the year 2013, the Group completed the transaction for disposal of 91 Group to Baidu HK in October 2013. The disposal marks an important milestone in the development of the mobile Internet industry. Furthermore, by leveraging the financial resources obtained from this transaction, together with the experience accumulated in developing online games and high-growth projects, the Group would continue to strengthen its leading position in the online game and mobile game markets.

Prior to the disposal of 91 Wireless, the mobile Internet business of the Group had always maintained a leading position in the mobile Internet industry by leveraging first mover advantage and continuous innovation. Through efforts on enhancing the platform advantages of "91 Assistant"* (91助手) (formerly known as "91 PC Suite") and HiMarket* (安卓市場), the cumulative download volumes of these two major distribution platforms already exceeded 10 billion in the first quarter of 2013. Meanwhile, the Group had made steady progress in the research and development of smart phone games and related software products, and continued to provide plenty of applications in the vertical field to meet diversifying demands of the vast mobile Internet users, which in turn enabled the user base and the income for the Group's mobile Internet business to maintain rapid growth.

After the disposal of 91 Wireless, the Group shifted the strategic focus of its mobile Internet business to the development and operation of mobile Internet games, and achieved significant progress in 2013. Several typical mobile games were launched, such as Crazy Tribe* (瘋狂部落), a mobile game based on the background of primitive society with lovely and artistic style; Evil Spirits* (妖界), an anime style cultivated strategic game integrating leisure strategy, instantaneous fighting and social community with Chinese myths as background; COS* (英魂之刃), the first 3D genex MOBA type of online game developed by the Company's self-developed S3 engines and integrating various themes such as science fiction, fantasy and mystique themes; and The Pirate (大海盜), a role play mobile game. Many mobile game products were opened for internal and beta testing, including the role play game, Micro Western Odyssey* (微西遊) (now known as Waku & Maou (暗黑戰魂)); the strategic role play game, Most Runescape* (now known as Blade & Sword) (最江湖); the 2.5D role play game, Celestial Saga* (戰蒼穹), which was developed by C3 game engine and the Fatal Fighter* (全球快打), a side scrolling fighting game with alien theme. The Group believed these games could enable sufficient product reserve for the continuous launch of masterpiece games in the Group.

During the process of expansion in mobile game market, the Group made reference to previous successful experiences and fully utilized the R&D and operation advantages accumulated over the years in the MMORPG field. To extend the Group's flagship game, Eudemons Online's (魔域) branding and clustering effects of players on mobile terminals, the mobile game version of Eudemons Online (魔域), Eudemons Online Pocket Version* (魔域口袋版), was opened for internal testing during 2013. It is believed that this game version will gain potential growth in the mobile game field via its wide user base and popularity accumulated in the MMORPG market. To spread the lifespan of mobile game products, the Group successively launched upgraded versions of cross-platform mobile games such as Warring States* (戰國天下), Chaos Hero* (亂世封神) and Legend of Emperors* (帝王傳) to promote detailed refinement of games and attract more players. Several expansion packs of the mobile game Celestial Saga* (戰蒼穹), including The Challenge* (誰與爭鋒), were launched and offered timely upgrades to maintain players' interest. Also, Eastern Assassinator* (東方刺客), a new expansion pack of the iPad version of Conquer Online (征服), was released in May 2013.

Through the extension of the Group's channel and operation edges in the overseas game markets, the Group continued to promote its mobile game products in overseas markets. In 2013, the Korean version of Warring States* (戰國天下) was officially launched in June 2013, attracting a large number of Korean players and successfully gaining a foothold in the Korean market. The traditional Chinese version of the first ARPG mobile online game Crazy Tribe* (瘋狂部落) was officially launched in Hong Kong, Macau and Taiwan markets in October 2013 and ranked first among free game applications of the traditional Chinese App Store and third on popular free iPhone App on its first day of launch. The mobile version of Conquer Online (征服) in English, compatible with the iPad version, and The Pirate* (大海盜) in Arabic were launched in the fourth quarter of 2013. In addition, the iOS version of Evil Spirits* (妖界) was launched in the Vietnamese market in the fourth quarter of 2013.

The Group believed that, by virtue of its years of experiences in R&D and market expansion in the field of interactive games, the Group's mobile game business is expected to achieve remarkable results.

The very substantial disposal of 91 Wireless, being an indirect non wholly-owned subsidiary of the Company, and its group companies (the "91 Wireless Group") by way of merger and connected transaction

On 15 July 2013, the Company, NetDragon (BVI) and Baidu Holdings Limited signed a memorandum of understanding (the "Memorandum of Undertaking") for the proposed disposal of the issued share capital of 91 Wireless meaning that the Group's development is going to move into another important milestone.

On 14 August 2013, (i) a merger agreement (the "Merger Agreement") was entered into among 91 Wireless, Baidu HK and Baidu (Hong Kong) Sub Limited ("Merger Sub"); and (ii) deeds of undertaking were entered into by the Company and NetDragon (BVI) and some others shareholders of 91 Wireless, respectively.

The Merger Agreement

Pursuant to the terms and subject to the conditions of the Merger Agreement, Merger Sub would merge with and into 91 Wireless (the "Merger") at the time on which the Merger became effective as set out in the plan of merger as appended in the Merger Agreement in accordance with the Companies Law of the Cayman Islands (the "Effective Time"), with 91 Wireless surviving the Merger and becoming a wholly owned subsidiary of Baidu HK as a result of the Merger. The consideration for the Merger was US$1,847.94 million (equivalent to approximately HK$14,336.09 million).

As at 1 October 2013, the Company ceased to hold any interest in 91 Wireless and each member of the 91 Wireless Group ceased to be a subsidiary of the Company. Special dividend of HK$7.77 per share was paid to the shareholders of the Company on 6 November 2013.

For details of the very substantial disposal, the Merger Agreement and the transactions contemplated thereunder, please refer to the Company's announcements dated 15 July 2013, 16 August 2013, 1 October 2013, 3 October 2013 and 11 October 2013.

Due to a very substantial disposal of 91 Wireless by way of merger and connected transaction in 2013, NetDragon (Fujian) achieved a gain and the net asset value as at 31 December 2013 amounted to RMB305,183,000 which exceeded the maximum net asset value established at 31 December 2006 of RMB15,000,000 as set out in the waiver granted by the Stock Exchange (the "Waiver"). The Company had made enquires and communicated with the Stock Exchange before 31 December 2013. NetDragon (Fujian) and TQ Digital entered into a donation agreement on 21 March 2014. As a result of the donation, the net asset value of NetDragon (Fujian) had been restored below the level of RMB15,000,000 as required in the Waiver and the disposal profit of NetDragon (Fujian) has been transferred to TQ Digital.

Expansion of business lines

The completion of the disposal transaction of the subsidiary, 91 Wireless, symbolized the Group's entry into another exciting stage. Apart from the payment of a special dividend of HK$7.77 per share as reward to the shareholders for their long-term support, the balance of the net proceeds from the disposal would provide strong financial support for the Group's ongoing expansion into strategic emerging businesses, thereby laying a solid foundation for the development of the Group's new projects.

Online education project

Along with China's rapid social and economic development and the popularity of information technologies such as mobile Internet, the Group had accelerated its research for business model and accumulated resources for the online education segment during 2013.

The Group progressively established the general framework for online education in four project fields during 2013. Being the foundation of the Group's education project, "Open Education Cloud Platform"* (開放教育雲平台) is a large-scale education cloud platform covering a back-end fundamental support platform, a front-end application platform and faces numerous terminals. The construction of this platform was under steady progress, and the Group was continuously investing resources to enrich the contents of this platform. On top of this platform, the Group was constructing a micro research base to develop advanced education solutions for various segments such as secondary and higher vocational education, universities, non-degree, lifetime education and K-12. In the future, education cloud platform is expected to cover the whole lifelong education system, ranging from kindergarten to university for the aged.

Project in the Haixi Animation Creativity City (the "Project")

"The Haixi Animation Creativity City" was a project initiated by Changle Western Taiwan Straits Creative Valley (長樂海西創意谷), with planning and construction carried out by the Group. It was a key project under construction in Fujian province in 2013, and also a key project for the cultural creativity industry in the Linkonggang Economic Zone of Fuzhou City. The Project covered a more integrated industrial chain of animation creativity from research and development in animation, exchange, animation derivatives to elite education. During 2013, the progress of the three phases was as follows:

I. The first phase was "Phase 1 of the Haixi Animation Creativity City" and located on a parcel of land with a site area of 247 mu. It was occupied by the Group for exchange in research and development, and quality development. It had been constructed into several main buildings such as the Group's office building and Pentagonal Building* (五角大樓), with a gross floor area of approximately 20,000 square meters and an investment amount exceeding RMB200 million.

II. The second phase was "Phase 2 of The Haixi Animation Creativity City" and located on a parcel of land with a site area of 297 mu. It was used by the Group as core animation research centre with a gross floor area of approximately 250,000 square meters and a total investment amount exceeding RMB600 million, of which the Heavenly Building* (天晴樓) (now known as Enterprise* (企業號)), a landmark building was completed in August 2011 and other buildings are under tight construction.

III. The third phase was "Phase 3 of The Haixi Animation Creativity City" and located on a parcel of land with a site area of 635 mu, which was a project for game terminal and animation application. The site, which would become the Group's research and development center for future mobile intelligent terminals. The Group was processing the land supply procedure.

Furthermore, the Group placed great emphasis on the development of education. It was planning to construct of the new Changle campus for Fuzhou Software Technology Vocational College, which had a student enrolment of approximately 8,000 and occupied an area of 536 mu. The project had completed planning, design and site selection, and when put into use, the project would form an industry cluster effect together with the three projects in the park by the way of "learning supported by production, research facilitated by production, learning combined with production" to boost the emergence and development of Haixi animation creation industry. The construction of the Changle project would help form a complete high-tech industry cluster and animation industry chain for "technological research and development, application and production" in the area, making it a new town with the most sophisticated technology and the most ecology-friendly industry, a creative new town with the greatest potential, and a new innovative culture zone along the south-eastern coast in China.

Financial Review

Liquidity and Capital Resources

As at 31 December 2013, the Group had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB4,463.0 million (31 December 2012: RMB1,731.3 million), out of which approximately RMB107.4 million (31 December 2012: RMB194.4 million) had been pledged to bank to secure bank borrowing.

As at 31 December 2013, the Group had net current assets of approximately RMB3,776.0 million as compared with approximately RMB1,369.3 million as at 31 December 2012.

In the management of the liquidity risk, the Group monitored and maintained a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigated the effects of fluctuations in cash flows. The Group's financial liabilities (including trade and other payables, amount due to a related company, amount due to an associate and secured bank borrowing) would be settled within 12 months from the end of 2013. The Group's policy was to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintained sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Based on the assessment of the management, liquidity risk encountered by the Group was minimal.

Gearing Ratio

The gearing ratio (consolidated bank borrowing/consolidated total equity) was 0.02 (31 December 2012: 0.13). As at 31 December 2013, total bank borrowing of the Group amounted to approximately RMB104.7 million (31 December 2012: RMB183.6 million) was fixed rate loan.

Capital Structure

As at 31 December 2013, the Group's total equity amounted to approximately RMB4,622.9 million (2012: RMB1,416.0 million).

Foreign Currency Risk

The Group operated mainly in the PRC. Most of its monetary assets, liabilities and transactions were principally denominated in the functional currency of respective group entities, which was RMB. However, the Group also had operations in Hong Kong and the USA and the business transactions conducted there during 2013 were mainly denominated and settled in HK$ and US$ respectively. The Group did not have hedging policy in respect of the foreign currency risk. However, the management closely monitored foreign exchange exposure to ensure appropriate measures were implemented on a timely and effective manner. In this respect, the Directors considered there was no significant currency mismatch in the Group's operational cash flows and the Group was not exposed to any significant foreign currency exchange risk in its operation.

Employee and Emolument Policy

The Group had its overall staff headcount of 2,268 as at 31 December 2013. The emolument policy of the employees of the Company was set up by the Board on the basis of their merit, qualifications and competence.

The emoluments of the senior management of the Company were recommended by the remuneration committee of the Company and were decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The emoluments of the Directors were recommended by the remuneration committee of the Company and were decided by the Board, as authorised by shareholders at the annual general meeting of the Company.

The Company has also adopted a share award scheme in which selected employees of the Group are entitled to participate, and a share option scheme pursuant to which the eligible participants as defined in the scheme are entitled to participate.

(3) **For the year ended 31 December 2014**

Business Review

The Group focused on the development of its main online games business and strengthening its leading position in China's game industry. The Group had been implementing its strategy to enhance game development and operational capabilities. The Group took advantage of opportunities in the domestic Chinese and overseas online games industry, especially with regards to mobile-based platforms, to provide high-quality online game products to players around the world.

In order to achieve greater success, the Group devoted resources and leveraged its competitive advantages to develop its online education business, the first strategic business it had entered into since the sale of 91 Wireless to Baidu in 2013. With China's online education industry developing rapidly, the Group had created a comprehensive strategic plan to build a holistic, integrated eco-system in the online education space covering pre-class, in-class and after-class activities.

MMORPGS

The Group launched multiple new expansion packs and content updates for its existing online games in order to encourage players to be more active. The Group also launched a number of high-quality games and expanded its pipeline in order to generate continuous steady revenue streams from its game business.

The Company began beta testing of Salvation of the Shadow* (暗黑龍騎 • 浩劫) in April 2014. During 2014, a Chinese expansion pack for Eudemons Online (魔域) which introduced a new Shadow Knight class that further optimized the game's balance. In October 2014, the Company also began beta testing of Goddess Era* (女神•天賦覺醒), the second Chinese expansion pack launched within the year that introduced the "Goddess Gifts" system. Players were able to enhance their characters' attributes free of charge which enhanced gameplay and increased player stickiness. The Group's other flagship game, Conquer Online (征服) launched two class-updated versions in simplified Chinese - Wrath of the Trojans (勇士崛起) and Second Ninja War (忍者翻身). The new versions updated the game's class systems. The Company also launched King of Kungfu (功夫之王), a new expansion pack in October 2014. By adding a class to the game, the expansion pack increased user stickiness and increased revenues. English, French, Spanish and Arabic versions of Conquer Online's (征服) expansion pack were also launched in the overseas markets. Revenue generated by the English version of Conquer Online (征服) reached an 11-year high in December 2014, which enhanced the competitiveness of the game in various countries and regions worldwide. A number of the Group's other games also launched expansion packs. Way of the Five (開心) launched three Chinese expansion packs during 2014. Mecho Wars, an expansion pack for Zero Online (機戰) was launched in September 2014. The continuous launch of new expansion packs aided in generating steady growth despite intense game industry competition which demonstrated the Group's extensive game development and operation capabilities.

The Group further expanded its pipeline in order to provide players with more diversified products. Calibur of Spirit (英魂之刃), the Company's first Multiplayer Online Battle Arena (MOBA) micro-client game, recorded strong operational metrics across every indicator since its testing in May 2013. Calibur of Spirit (英魂之刃) was selected for the World Cyber Arena ("WCA") held in Yinchuan, China in October 2014. This marked the Group's first game selected for the WCA and was the only China-developed competitive game to participate in the WCA. The game generated a record high of over RMB10 million in monthly gross revenue in October 2014, demonstrating the attractiveness of the game's fiction and fantasy elements towards players as well as the Group's world-class game-design and development capabilities. The Group also signed an exclusive China licensing agreement for Calibur of Spirit (英魂之刃) with Tencent near the end of 2014, and the Company is confident that revenue from this game will grow substantially as large scale publicity campaigns get underway and new content updates are launched.

Mobile Games

Solid progress continued in the Group's mobile gaming business in 2014 as the Group leveraged its extensive experience in web games as well as developing and operating MMORPGs.

In an effort to extend the brand recognition and user stickiness of the Group's flagship game, Eudemons Online (魔域), the Group developed a mobile version of this game called Eudemons Online Pocket Version* (魔域口袋版) which began beta testing in May 2014 with the non-deletion testing of its Android version being launched in September 2014. The game was well received by players and had recorded excellent results. In order to extend the life cycle of its other mobile games, the Group released new expansion packs including The Pirate* (大海盜), Crazy Tribe* (瘋狂部落) and Celestial Saga* (戰蒼穹) during 2014. In particular, the Arabic iOS version of The Pirate* (大海盜) had been enormously popular across the Middle East and North Africa with record high downloads since its update was launched during the first quarter of 2014.

To ensure optimal game quality before official open-beta testing, the Group has been testing multiple versions of the mobile games which are currently under development. Blade & Sword* (最江湖), the Group's self-developed 2.5D martial arts role-play mobile games, went through channel testing in May 2014. The Group also signed an exclusive licensing agreement for the Chinese version of Blade & Sword* (最江湖) with one of China's leading mobile game publishers in August 2014. The game began deletion beta testing in November 2014. Martial Overlord* (武魂天下), a 3D martial arts action mobile game began first closed beta testing in August 2014 and channel testing in November 2014.

Online and Mobile Education

The Group made very strong progress in research and development, pedagogy integration, content partnership and acquisition for its online and mobile education business during 2014.

Research & Development

As at 31 December 2014, the Company's educational product design and R&D team comprised of over 350 staff. With world-class leadership, the team focuses on the design and development of both software and hardware, and over the course of 2014, had achieved many milestones in the development of high-quality and differentiated software. The Company's 101 student tablet, which has also gone through multiple design iterations, is expected to be launched during the third quarter of 2015. The Company's product development roadmap to create a holistic, integrated total-solution for online and mobile education remained unchanged. The initial version of the commercialized product will be focused on enabling best-in-class interconnectivity in the classroom, and will create true value through a transformational yet easy-to-learn educational solution for teachers and students. The Company will update the market when more information on product launches is available. In addition, the Company expected to officially open a Research Lab in Beijing in the months following 2014 to extend its talent acquisition reach. The plan was to scale this office to hundreds of R&D staff within one to two years to accelerate educational research and development.

Pedagogy Integration

The Company continued to deepen its partnership with Beijing Normal University, China's top education university, to ensure the most effective pedagogy was being developed and integrated based on collaboration with proven hands-on educators. In November 2014, the Company signed an agreement with Beijing Normal University to jointly research e-classroom design in an effort to develop insight into how software and hardware can best be integrated with various teaching models in a classroom learning environment. On 18 March 2015, the Group's education subsidiary and Beijing Normal University also announced the establishment of the Smart Learning Institute which will provide a unique platform to integrate the most advanced pedagogy with the Company's mobile Internet expertise and technological know-how. The Company believes the accumulation and understanding of pedagogy through its partnerships with top-tier universities and institutions including Beijing Normal University, will form a significant barrier to entry.

Content Partnerships

The Group signed a Memorandum of Understanding in November 2014 with a subsidiary of Pearson (Beijing) Management Consultancy Company Limited ("Pearson"), the globally renowned leading education company, and Beijing Normal University, to develop a smart education solution. This collaboration will leverage Pearson's rich K-12 educational content resources to build China's leading integrated smart education solution. In addition, the Company was also in discussions with numerous major publishers and content partners to enrich the content on its platform.

Other developments

The Group was officially admitted to the Education Informatization Standard Committee under the Ministry of Education in November 2014. Such membership will allow the Group to participate in the forming of technology standards, which will be conducive in developing the right products that meet or exceed regulatory standards. The Group was one of very few selected tier-one mobile Internet companies who are members of the committee.

Strategic Merger with Cherrypicks

On 3 June 2014, the Company entered into a sale and purchase agreement to acquire Cherrypick's mobile solution business. Cherrypicks is a leading enterprise in mobile technology and mobile marketing in the Asia Pacific region. The acquisition was completed on 21 July 2014. The strategic merger will provide the Group with a team of world-class, innovative mobile solutions developers with strong capabilities to build cutting edge mobile products for global markets in areas including enterprise software, mobile marketing, mobile commerce and mobile education. Further details of the aforesaid sale and purchase agreement and the acquisition thereunder are set out in the Company's announcement dated 3 June 2014 and 21 July 2014, respectively.

Project in Haixi Animation Creativity City (the "Project")

The "Haixi Animation Creativity City" was a project initiated by Changle Western Taiwan Straits Creative Valley (長樂海西創意谷), with the Group providing construction and planning services. It was a key project in Fujian province, and also a key project for the cultural creativity industry in the Linkonggang Economic Zone of Fuzhou City. The Project covered a more integrated industrial chain of animation creativity from research and development in animation to exchange, animation derivatives, wireless mobile Internet education application and elite education. During 2014, the progress of the four phases was as follows:

I. Phase I covered an area of 247 mu. It was used by the Group for research and development, exchange and quality control development. Several main buildings had been constructed, including the Group's office building and Pentagonal Building* (五角大樓), with a gross floor area of approximately 33,000 square meters. Operations were underway.

II. Phase II covered an area of 297 mu. This was the core animation research center of the Group. After two years of construction, the main building of the Group's landmark building, Enterprise* (企業號), was officially put into operation on 18 May 2014. Other ancillary buildings were under construction within the area.

III. Phase III covered an area of approximately 600 mu of which 345 mu had been earmarked for online education industrial zone, 105 mu had been slated for commercial and residential use, 48.8 mu was designated for apartments for senior management. The remaining 101.3 mu will be used for future mobile game business research and development purpose.

Haixi Animation Creativity City's land grant application was being processed. Part of the commercial and residential zone of Haixi Animation Creativity City, covering an area of 105 mu was designated for commercial and residential use of Changle Western Taiwan Straits Creative Valley. Residential units would be sold to employees following the completion of the project.

IV. The Group also placed great emphasis on the development of the education segment. It was planning to construct a new Changle campus for Fuzhou Software Technology Vocational College, which had a student enrolment of approximately 8,000 and occupies an area of 536.2 mu. The project had completed planning, design and land planning permission, and when put into use, will form an industry cluster effect together with the three projects in the park by the way of "learning supported by production, research facilitated by production, learning combined with production" to boost the emergence and development of Haixi animation creation industry.

The construction of the Project would help form a full-scale high-tech industry cluster and animation industry chain for "technological research and development, application and production" in the area, making it a new town with the most sophisticated technology and the most ecology-friendly industry, a creative new town with the greatest potential, and a new innovative culture zone along the south-eastern coast in China.

Financial Review

Liquidity and Capital Resources

As at 31 December 2014, the Group had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB3,273.2 million (31 December 2013: RMB4,463.0 million), out of which approximately RMB236.8 million (31 December 2013: RMB107.4 million) had been pledged to bank to secure bank borrowing.

As at 31 December 2014, the Group had net current assets of approximately RMB3,148.0 million as compared with approximately RMB3,776.0 million as at 31 December 2013.

In the management of the liquidity risk, the Group monitored and maintained a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigated the effects of fluctuations in cash flows. The Group's financial liabilities (including trade and other payables, amount due to a related company, amount due to an associate and secured bank borrowing) would be settled within 12 months from the end of 2014. The Group's policy was to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintained sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Based on the assessment of the management, liquidity risk encountered by the Group was minimal.

Gearing Ratio

The gearing ratio (consolidated bank borrowing/consolidated total equity) was 0.05 (31 December 2013: 0.02). As at 31 December 2014, total bank borrowing of the Group amounted to approximately RMB236.8 million (31 December 2013: RMB104.7 million fixed-rate loan) was floating-rate loan.

Capital Structure

As at 31 December 2014, the Group's total equity amounted to approximately RMB4,617.4 million (2013: RMB4,622.9 million).

Foreign Currency Risk

The Group operated mainly in the PRC. Most of its monetary assets, liabilities and transactions were principally denominated in the functional currency of respective group entities, which was RMB. However, the Group also had operations in Hong Kong, the USA and Indonesia and the business transactions conducted there during 2014 were mainly denominated and settled in HK$, US$ and Indonesia Rupiah ("IDR") respectively. The Group did not have hedging policy in respect of the foreign currency risk. However, the management closely monitored foreign exchange exposure to ensure appropriate measures were implemented on a timely and effective manner. In this respect, the Directors considered there was no significant currency mismatch in the Group's operational cash flows and the Group was not exposed to any significant foreign currency exchange risk in its operation.

Employee and Emolument Policy

The Group had its overall staff headcount of 3,299 as at 31 December 2014. The emolument policy of the employees of the Company was set up by the Board on the basis of their merit, qualifications and competence.

The emoluments of the senior management of the Company were recommended by the remuneration committee of the Company and were decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The emoluments of the Directors were recommended by the remuneration committee of the Company and were decided by the Board, as authorised by shareholders at the annual general meeting of the Company.

The Company has also adopted a share award scheme in which selected employees of the Group are entitled to participate, and a share option scheme pursuant to which the eligible participants are entitled to participate.

(4) **For the six months ended 30 June 2015**

Business Review

In the first half of 2015, the Group further consolidated its market position in the gaming space and took further strategic move to develop its education ecosystem.

1. *Games Business*

(1) *Online games*

During the first quarter of 2015, a new gameplay of flagship game title Conquer Online (征服) was introduced, resulting in record high overseas revenue during the period. Conquer Online (征服) celebrated its anniversary in April 2015 with the launch of The Rhapsody of Ice and Fire: Taoist Ascending (道士翻身) which further consolidates the game's market share. The new expansion pack of Conquer Online (征服) has been launched in the third quarter of 2015 to satisfy the need of new gaming experience of its target players. War of Legions (王者之戰), the new expansion pack for the Group's another flagship game Eudemons Online (魔域), officially began open-beta testing in May 2015. The new expansion pack offers players a richer gaming experience.

Calibur of Spirit (英魂之刃), the Group's first MOBA micro-client game, officially began open-beta testing on Tencent's platform in January 2015 and has since rapidly recorded significant player growth thanks to its efficient micro-client login and fast paced battle mode. Calibur of Spirit (英魂之刃) generated record high monthly gross revenue of approximately RMB26 million in May 2015 and its peak concurrent users of over 400,000 users in July 2015. The Portuguese version of Calibur of Spirit (英魂之刃) began alpha testing in March 2015. The Group is currently developing multiple foreign language versions as well as a mobile game version of Calibur of Spirit (英魂之刃) to leverage the user base and brand value of this popular game.

Regarding new games, 3D action strategy game Tiger Knight (虎豹騎), which vividly reproduces and realistic legendary army battle scenes with visual effects, has won praise from players. During its research and development phase, Tiger Knight (虎豹騎) was among the games listed on Sina's "China Games Weight Rank", and was awarded as one of "Top Online Games of the Year" and "New Games of the Year". In the third quarter of 2015, the Chinese version of Tiger Knight (虎豹騎) will begin a new round of alpha testing and is expected for the official launch by the end of 2015.

(2) *Mobile games*

Eudemons Online Pocket Version* (魔域口袋版) has recorded satisfactory operational metrics since its open-beta testing in January 2015 and its traditional Chinese version was formally released in Hong Kong and Taiwan in April 2015. In June 2015, Eudemons Online Pocket Version*

(魔域口袋版) released the BOSS version on App Store that was quickly ranked among the top 10 paid mobile apps on the App Store with its six brand new challenging modes sparking great enthusiasm of players. The first expansion pack of Eudemons Online Pocket Version* (魔域口袋版) began alpha-testing in August 2015, and began official open-beta testing in the third quarter of 2015. The new expansion pack accelerated growth of the game while maintaining higher user stickiness. Looking forward, the Group plans to expand overseas markets for the successful Eudemons Online Pocket Version* (魔域口袋版). Another mobile game, the Android version of 2.5D martial arts mobile role-playing game Blade & Sword* (最江湖) began its all channels testing in June 2015 with plans to formally launch by the end of 2015.

Meanwhile, the Group continued to invest in the pipeline of overseas version of mobile games. The overseas version of the Group's first person shooting game and a mobile card game Dead Union* (絕對火力之危機邊緣) and will start their alpha testing during the second half of 2015 and are expected to be officially launched during the fourth quarter of 2015.

2. *Online and Mobile Education*

In the first half of 2015, leveraging on favourable industry policies, the online and mobile education business of the Group continued its strong growth momentum in 2014 and recorded outstanding progress in terms of products, pedagogy integration, content, market, financing and M&A.

(1) *Products and contents*

The Group made significant progress in building a dynamic and engaging educational ecosystem that will create a fun and effective learning experience and enable a seamless connection between teachers, students and parents. The Group is on the verge of completing the final stage of the development for its education product targeted for first-phase commercialization.

On the hardware front, the Group's "101 student tablet" has gone through several internal design iterations and is ready for large scale deployment. On the software front, the Group's initial product will center around its collaborative classroom product which aims to provide a revolutionary teaching and learning experience within the classroom. Integrated within the ecosystem is an educational content repository that covers primary and secondary school curriculum and all major academic subjects, including both licensed and self-developed contents. The Group's Instant Messaging Platform has gone through a vigorous development cycle and will be integrated within the Group's other software modules to ensure a seamless user experience.

(2) *Go to Market*

The Group's market penetration strategy focuses on forming a large scale active user base by combining B2B and online B2C models. While B2B model is executed through channel building and is a vital step for penetrating into new regional markets, the Group will leverage its deep internet B2C expertise to scale up users and monetization through online B2C model. As part of its efforts in the B2B model, the Group has built up a national distribution network and has established a sales team covering 6 major regions and over 20 provinces in China.

The Group expects to ramp up commercialization efforts within the next several months in line with start of the new school year, and targets to achieve sales coverage in over 15 cities.

(3) *Merger and Acquisition (M&A)*

The Group continued to build traction with its M&A initiatives during the first half of 2015. In June 2015, the Group signed a sale and purchase agreement to conditionally acquire a 100% equity interest in ChiVox Co., Ltd ("ChiVox"). The Group is on track to complete this acquisition by September 2015. With this acquisition, the Group will integrate ChiVox's best-in-class intelligent voice and speech technology into its language assessment platform in the area of language assessment, which will create a very high entry barrier to competing education platforms. In July 2015, the Group announced its intention to make a recommended offer for the entire issued and to be issued share capital of Promethean World Plc for a total consideration of £84.8 million (equivalent to US$131.5 million). Promethean is a global leader in interactive learning technology with a substantial user base and a well-known brand with the reputation for providing high quality education products.

(4) *Fundraising*

In February 2015, the Group's online education subsidiary acquired Series A equity fundraising round of US$52.5 million led by world-renowned investors at a fully-diluted post-money valuation of US$477.5 million.

Financial Review

Liquidity and Capital Resources

As at 30 June 2015, the Group had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB3,142.9 million (31 December 2014: RMB3,273.2 million), out of which approximately RMB236.6 million (31 December 2014: RMB236.8 million) has been pledged to bank to secure bank borrowing.

As at 30 June 2015, the Group had net current assets of approximately RMB2,701.6 million as compared with approximately RMB3,148.0 million as at 31 December 2014.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Based on the assessment of the management, liquidity risk encountered by the Group is minimal.

Gearing Ratio

The gearing ratio of the Group (consolidated bank borrowing/consolidated total equity) was 0.05 (31 December 2014: 0.05). As at 30 June 2015, total bank borrowing of the Group amounted to approximately RMB236.6 million (31 December 2014: RMB236.8 million) was floating-rate loan.

Capital Structure

As at 30 June 2015, the Group's total equity amounted to approximately RMB4,463.3 million (31 December 2014: RMB4,617.4 million).

Foreign Currency Risk

The Group operates mainly in the PRC. Most of its monetary assets, liabilities and transactions are principally denominated in the functional currency of respective group entities, which is RMB. However, the Group also has operations in Hong Kong, the USA and Indonesia and the business transactions conducted there during the period were mainly denominated and settled in HK$, US$ and IDR respectively. As at 30 June 2015, the Group did not have hedging policy in respect of the foreign currency risk. However, the management of the Group closely monitors foreign exchange exposure to ensure appropriate measures are implemented on a timely and effective manner. In this respect, the Directors consider there is no significant currency mismatch in the Group's operational cash flows and the Group was not exposed to any significant foreign currency exchange risk in its operation.

Employee and Emolument Policy

The Group had its overall staff headcount of 3,539 as at 30 June 2015. The emolument policy of the employees of the Company is set up by the Board on the basis of their merit, qualifications and competence.

The emoluments of the senior management of the Company are recommended by the remuneration committee of the Company and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The emoluments of the Directors are recommended by the remuneration committee of the Company and are decided by the Board, as authorised by shareholders at the annual general meeting of the Company.

The Company has also adopted a share award scheme in which selected employees of the Group are entitled to participate, and a share option scheme pursuant to which the eligible participants as defined in the Scheme are entitled to participate.

Set out in this Appendix II are: (1) the financial statements of the Promethean Group for years 2012, 2013 and 2014; (2) the latest published financial information of the Promethean Group; and (3) the management discussion and analysis of the Promethean Group. Promethean adopts International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), which are similar to IFRS as issued by the International Accounting Standards Board ("IASB") with some modifications and exceptions. Such modifications and exceptions do not create any principal difference between Promethean's adopted accounting policies and those of the Company, being HKFRSs, which may have a material impact on the financial statements of Promethean.

1. FINANCIAL STATEMENTS OF THE PROMETHEAN GROUP FOR YEARS 2012, 2013 AND 2014

The following is the text of the financial statements of the Promethean Group extracted from the annual reports of Promethean for the three years ended 31 December 2012, 2013 and 2014, which are published on the website of Promethean at http://www.prometheanworld.com/. Unless otherwise specified, (i) references to page numbers in this section are references to the page numbers of Promethean's annual report for the three years ended 31 December 2012, 2013 and 2014; and (ii) capitalised terms used in this section shall have the same meaning as adopted in Promethean's annual report for the three years ended 31 December 2012, 2013 and 2014, respectively.

A. Accountants' Report of Promethean for the year ended 31 December 2012

Independent Auditor's Report
to the members of Promethean World Plc

We have audited the financial statements of Promethean World Plc for the year ended 31 December 2012 set out on pages 50 to 92. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 47, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2012 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the Corporate Governance Statement set out on pages 36 to 37 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 31, in relation to going concern;
- the part of the Corporate Governance Statement on page 32 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Stuart Burdass (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc
Statutory Auditor
Chartered Accountants
St James Square
Manchester
M2 6DS
United Kingdom
26 February 2013

Financial Statements

Contents

Consolidated Income Statement
for the year ended 31 December

	Note	2012 £000	2011 £000
Revenue	7	**157,001**	222,894
Cost of sales		**(99,363)**	(127,334)
Gross profit		**57,638**	95,560
Operating expenses	9	**(223,545)**	(78,145)
Analysis of results from operating activities:			
Earnings before interest, tax, depreciation, amortisation, exceptional items and share-based payments		**5,102**	31,109
Depreciation and amortisation (excluding amortisation of acquired intangible assets)		**(10,638)**	(7,687)
Amortisation of acquired intangible assets		**(801)**	(796)
Goodwill impairment – exceptional cost	8	**(140,503)**	—
Other exceptional costs	8	**(19,586)**	(5,963)
Exceptional income	8	**1,710**	1,282
Share-based payments		**(1,191)**	(530)
Results from operating activities		**(165,907)**	17,415
Finance income	11	**991**	411
Finance expense	11	**(514)**	(1,731)
Net finance income/(expense)	11	**477**	(1,320)
(Loss)/profit before income tax		**(165,430)**	16,095
Income tax credit/(expense)	12	**5,605**	(4,923)
(Loss)/profit for the year[1]		**(159,825)**	11,172
(Loss)/earnings per share			
Basic (loss)/earnings per share (pence)	22	**(80.10)**	5.59
Diluted (loss)/earnings per share (pence)	22	**(80.10)**	5.54

1. All attributable to equity shareholders.

The (loss)/profit for the year and earnings per share are entirely from continuing operations.

The notes on pages 55 to 92 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December

	Note	2012 £000	2011 £000
(Loss)/profit for the year from the income statement		**(159,825)**	11,172
Foreign currency translation differences – foreign operations	11	**(536)**	993
Net loss on net investments in foreign operations	11	**(939)**	(120)
Total comprehensive income for the year[1]		**(161,300)**	12,045

1. All attributable to equity shareholders.

The (loss)/profit for the year and earnings per share are entirely from continuing operations.

The notes on pages 55 to 92 are an integral part of these financial statements.

Statements of Financial Position
as at 31 December
Registered number 7118000

	Note	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Assets					
Property, plant and equipment	14	**9,944**	14,877	**—**	—
Intangible assets	15	**17,955**	160,839	**—**	—
Investments	16	**—**	—	**19,941**	90,091
Deferred tax assets	12	**7,101**	2,087	**—**	—
Total non-current assets		**35,000**	177,803	**19,941**	90,091
Inventories	18	**15,400**	18,237	**—**	—
Derivative financial instruments	17	**74**	356	**—**	—
Trade and other receivables	19	**27,388**	39,619	**55,903**	55,966
Current tax assets		**1,043**	1,649	**—**	—
Cash and cash equivalents	20	**8,011**	21,802	**9**	111
Total current assets		**51,916**	81,663	**55,912**	56,077
Total assets		**86,916**	259,466	**75,853**	146,168
Liabilities					
Trade and other payables	23	**(23,482)**	(32,841)	**(15,223)**	(11,953)
Derivative financial instruments	27	**(55)**	(83)	**—**	—
Provisions	24	**(5,434)**	(3,954)	**—**	—
Current tax liabilities		**(1,005)**	(961)	**—**	—
Total current liabilities		**(29,976)**	(37,839)	**(15,223)**	(11,953)
Trade and other payables	23	**—**	(37)	**—**	—
Provisions	24	**(999)**	(227)	**—**	—
Deferred tax liabilities	12	**—**	(1,686)	**—**	—
Total non-current liabilities		**(999)**	(1,950)	**—**	—
Total liabilities		**(30,975)**	(39,789)	**(15,223)**	(11,953)
Net assets		**55,941**	219,677	**60,630**	134,215
Equity					
Share capital	21	**20,000**	20,000	**20,000**	20,000
Share premium	21	**99,796**	99,796	**99,796**	99,796
Capital reserve	21	**93,990**	93,990	**—**	—
Translation reserve (FCTR)	21	**4,052**	5,527	**—**	—
Retained earnings	21	**(161,897)**	364	**(59,166)**	14,419
Total equity (all attributable to equity holders of the Company)	21	**55,941**	219,677	**60,630**	134,215

These financial statements were approved by the Board of Directors on 26 February 2013 and were signed on its behalf by:

N A Johnson
Director

The notes on pages 55 to 92 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Capital reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2011	20,000	99,796	93,990	4,654	(6,177)	212,263
Total comprehensive income for the year						
Profit for the year	—	—	—	—	11,172	11,172
Foreign currency translation differences – foreign operations	—	—	—	993	—	993
Net loss on net investment in foreign operations	—	—	—	(120)	—	(120)
Total other comprehensive income	—	—	—	873	—	873
Total comprehensive income for the year	—	—	—	873	11,172	12,045
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Purchase of own shares by Employee Benefit Trust	—	—	—	—	(889)	(889)
Dividends to equity holders	—	—	—	—	(4,289)	(4,289)
Share-based payments (net of tax)	—	—	—	—	547	547
Total contributions by and distributions to owners	—	—	—	—	(4,631)	(4,631)
Balance at 31 December 2011	**20,000**	**99,796**	**93,990**	**5,527**	**364**	**219,677**

	Share capital £000	Share premium £000	Capital reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2012	20,000	99,796	93,990	5,527	364	219,677
Total comprehensive income for the year						
Loss for the year	—	—	—	—	(159,825)	(159,825)
Foreign currency translation differences – foreign operations	—	—	—	(536)	—	(536)
Net loss on net investment in foreign operations	—	—	—	(939)	—	(939)
Total other comprehensive income	—	—	—	(1,475)	—	(1,475)
Total comprehensive income for the year	—	—	—	(1,475)	(159,825)	(161,300)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to equity holders	—	—	—	—	(3,368)	(3,368)
Share-based payments (net of tax)	—	—	—	—	932	932
Total contributions by and distributions to owners	—	—	—	—	(2,436)	(2,436)
Balance at 31 December 2012	**20,000**	**99,796**	**93,990**	**4,052**	**(161,897)**	**55,941**

The notes on pages 55 to 92 are an integral part of these financial statements.

Company Statement of Changes in Equity

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2011	20,000	99,796	9,004	128,800
Total comprehensive income for the year				
Profit for the year	—	—	9,936	9,936
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Purchase of own shares by Employee Benefit Trust	—	—	(889)	(889)
Dividends to equity holders	—	—	(4,289)	(4,289)
Share-based payments	—	—	657	657
Balance at 31 December 2011	**20,000**	**99,796**	**14,419**	**134,215**

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2012	20,000	99,796	14,419	134,215
Total comprehensive income for the year				
Loss for the year	—	—	(71,408)	(71,408)
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Dividends to equity holders	—	—	(3,368)	(3,368)
Share-based payments	—	—	1,191	1,191
Balance at 31 December 2012	**20,000**	**99,796**	**(59,166)**	**60,630**

The notes on pages 55 to 92 are an integral part of these financial statements.

Statements of Cash Flows
for the year ended 31 December

	Note	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Cash flows from operating activities					
(Loss)/profit for the period		**(159,825)**	11,172	**(71,408)**	9,936
Adjustments for:					
Depreciation	14	**4,390**	3,918	**—**	—
Amortisation of intangible assets	15	**7,049**	4,565	**—**	—
Impairment losses on property, plant and equipment	14	**3,573**	548	**—**	—
Impairment losses on intangible assets	15	**4,443**	—	**—**	—
Impairment losses on goodwill	15	**140,503**	—	**—**	—
Impairment losses on investments	16	**—**	2,939	**71,341**	—
Impairment losses on trade receivables		**3,660**	108	**—**	—
Gain on sale of investment		**(1,710)**	—	**—**	—
Gain on sale of property, plant and equipment		**(1)**	(7)	**—**	—
Net finance (income)/expense	11	**(477)**	1,320	**64**	64
Income tax (credit)/expense	12	**(5,605)**	4,923	**—**	—
Share-based payments	26	**1,191**	685	**—**	—
		(2,809)	30,171	**(3)**	10,000
Change in inventories		**1,792**	1,617	**—**	—
Change in trade and other receivables		**7,904**	(5,862)	**(1)**	(9,999)
Change in trade and other payables		**(7,709)**	4,048	**3,270**	5,288
Change in provisions		**2,703**	(604)	**—**	—
Cash generated from operations		**1,881**	29,370	**3,266**	5,289
Finance cost paid		**(548)**	(286)	**—**	—
Income tax paid		**(702)**	(2,838)	**—**	—
Net cash inflow from operating activities		**631**	26,246	**3,266**	5,289
Cash flows from investing activities					
Finance income received		**79**	69	**—**	—
Proceeds from sale of investment	16	**1,710**	—	**—**	—
Proceeds from sale of property, plant and equipment		**8**	14	**—**	—
Acquisition of property, plant and equipment	14	**(3,232)**	(4,277)	**—**	—
Development expenditure	15	**(9,233)**	(9,383)	**—**	—
Acquisition of subsidiary – deferred and contingent consideration		**(1,096)**	—	**—**	—
Net cash used in investing activities		**(11,764)**	(13,577)	**—**	—
Cash flows from financing activities					
Purchase of own shares by Employee Benefit Trust	21	**—**	(889)	**—**	(889)
Cash inflow/(outflow) from settlement of derivatives		**841**	(204)	**—**	—
Dividends paid		**(3,368)**	(4,289)	**(3,368)**	(4,289)
Net cash used in financing activities		**(2,527)**	(5,382)	**(3,368)**	(5,178)
Net (decrease)/increase in cash and cash equivalents		**(13,660)**	7,287	**(102)**	111
Cash and cash equivalents at 1 January		**21,802**	14,506	**111**	—
Exchange rate effects		**(131)**	9	**—**	—
Cash and cash equivalents at 31 December	20	**8,011**	21,802	**9**	111

The notes on pages 55 to 92 are an integral part of these financial statements.

Notes
(forming part of the financial statements)

1 Reporting entity

Promethean World Plc ('the Company') is a company registered in England and Wales. The address of the Company's registered office is Promethean House, Lower Philips Road, Whitebirk Industrial Estate, Blackburn, Lancashire BB1 5TH.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities') for the year ended 31 December 2012.

The parent company financial statements present information about the Company as a separate entity and not about its Group. In accordance with Section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account. The amount of the loss for the financial year dealt with in the financial statements of the Company is £71,408,000 (2011: profit of £9,936,000).

The Group's Promethean brand is a world leader in the global market for interactive learning technology. The Group creates, develops, supplies and supports leading edge, interactive learning technology primarily for the education market. Promethean's ActivClassroom brings together its interactive display systems (ActivBoard), its learner response systems (ActiVote and ActivExpression), its formative assessment software (ActivProgress) and its suite of specialised teaching software (ActivInspire).

Promethean also provides comprehensive training and support and, now with over one million members, Promethean Planet (www.prometheanplanet.com) is the world's largest online community for users of interactive learning technology, providing user-generated and premium content and is a forum for teachers to exchange ideas and experience.

2 Basis of preparation

(a) Statement of compliance

Both the parent company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs').

The parent company financial statements and the Group financial statements were authorised for issue by the Board of Directors on 26 February 2013.

(b) Basis of measurement

The parent company and Group financial statements have been prepared on the historical cost basis except for all derivative contracts being carried at their fair value.

The methods used to measure fair values are discussed further in note 4.

(c) Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Review on pages 10 to 13. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in note 27. In addition note 5 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

As outlined in note 15, during the year, the Group recognised an impairment charge of £140.5m in respect of its goodwill. As at 31 December 2012 the Group Statement of Financial Position shows net assets of £55.9m and net cash of £8.0m.

On the basis of the existing banking facilities in place as at 31 December 2012 and management's forecasts, there is sufficient headroom for the Group to operate comfortably for the foreseeable future.

Having made appropriate enquires, the Directors are satisfied that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they have continued to adopt the going concern basis in preparing the Company and consolidated financial statements.

(d) Functional and presentation currency

These financial statements are presented in Pound Sterling, which is the Company's functional currency. All financial information presented in Pound Sterling has been rounded to the nearest thousand.

(e) Use of estimates and judgements

The preparation of financial statements in conformity with Adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Notes continued
(forming part of the financial statements)

2 Basis of preparation continued

(e) Use of estimates and judgements continued

Information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- note 12 – taxation;
- note 15 – measurement of the recoverable amounts and value in use of cash-generating units containing goodwill;
- note 15 – valuation of intangible assets;
- note 27 – valuation of financial instruments; and
- note 27 – bad debt provisions.

The accounting policy descriptions set out the areas where judgement needs exercising, the most significant of which are revenue recognition, research and development, goodwill and intangible assets, exceptional items and financial instruments, and are outlined below:

- Revenue recognition – Determining when the significant risks and rewards of ownership have been transferred to the buyer and that recovery of the consideration is probable.
- Research and development – Determining that development costs can be reliably measured, that the product or process is technically and commercially feasible and that future economic benefits are probable.
- Goodwill and intangible assets – The Group tests goodwill for impairment at least annually. Judgement is required when allocating goodwill and intangible assets to cash generating units for impairment testing purposes.
- Exceptional items – Determining whether items are treated as non-trading items due to size or non-recurring nature.
- Financial instruments – Determining whether a derivative financial instrument should be classified as a qualifying hedging instrument.

Information on critical judgements made in applying accounting policies, including details of significant methods and assumptions used, is included in notes 15 and 27. The areas where the Group has estimated the fair value of assets and liabilities are outlined in note 4 and the financial risk management policies are detailed in note 5.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Group and Company financial statements and have been applied consistently by Group entities.

(a) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and entities controlled by the Company, all of which are made up to 31 December each year. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Acquisitions are accounted for under the acquisition method. The results of subsidiaries disposed of in the year are included in the Consolidated Statement of Comprehensive Income up to the date of disposal.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on a financial asset considered to be part of the net investment in the foreign subsidiary which are recognised directly in equity (see (b)(iii) overleaf).

3 Significant accounting policies continued

(b) Foreign currency continued

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to Sterling (GBP) at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Sterling (GBP) at average exchange rates which approximate to actual rates for the relative accounting periods.

Foreign currency differences are recognised in other comprehensive income and presented in the foreign currency translation reserve (FCTR) within equity. When a foreign operation is disposed of in full the cumulative amount in the translation reserve related to the foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the Group would re-attribute the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the Group would reclassify to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income.

(iii) Net investment in foreign operation

Foreign exchange gains and losses arising from a monetary item receivable from a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation.

Foreign currency differences arising on the retranslation of a financial asset designated as a net investment in a foreign operation are recognised in other comprehensive income and are presented in the FCTR within equity. When the net investment is disposed of, the relevant amount in the FCTR is transferred to profit or loss as part of the gain or loss on disposal.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and current balances with banks and are held at amortised cost.

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value. When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

(iii) Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised immediately in the Statement of Comprehensive Income.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss in equity is recognised in the Statement of Comprehensive Income immediately. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(iv) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Notes continued

(forming part of the financial statements)

3 Significant accounting policies continued

(d) Business combinations

The Group has applied IFRS 3 (2008) *Business Combinations* for all business combinations occurring on or after 1 January 2010.

Business combinations are accounted for by applying the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain the benefits of its activities.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain would be recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at the fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions prior to 1 January 2010

For acquisitions prior to 1 January 2010, goodwill represents the excess of the cost of acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of acquisition.

(e) Investments

Investments represent equity interests where the Company does not have significant interest or control.

The Group's investment in equity interests is classified as an available-for-sale financial asset. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

The Company's investments represent equity interests in subsidiary undertakings where the Company has significant interest or control. Investments are recognised at cost less impairment losses.

(f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

3 Significant accounting policies continued

(f) Property, plant and equipment continued

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Freehold buildings 25 years
- Plant and equipment 3–10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(g) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented within intangible assets.

For measurement of goodwill at initial recognition, see note 3(d).

Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but tested annually for impairment.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. The Group does not have any borrowing costs that specifically relate to qualifying assets. All other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangibles include interactive lesson content.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(v) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- Internally generated development assets 1–3 years
- Acquired development assets 5–10 years
- Acquired customer contracts and relationships 1–6 years

(h) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's Statement of Financial Position.

Notes continued
(forming part of the financial statements)

3 Significant accounting policies continued

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and other short-term highly liquid investments with maturities of three months or less.

(k) Impairment (excluding inventories and deferred tax assets)

The carrying amounts of the Group's assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment; a financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

The carrying value of the development assets and their remaining asset lives are reviewed periodically. In the event that projects or product lines have been discontinued then the corresponding development asset will be fully amortised. To the extent that management is aware of a reduction in demand for a particular product line, a review of forecast sales will be used to determine whether the reduction in demand has given rise to an impairment.

The carrying value and remaining asset lives of customer contracts, acquired through business combinations, are reviewed every six months taking into consideration any changes to contract terms in that period and how those changes will impact future cash flows under that contract.

For goodwill, the recoverable amount is estimated at the end of each reporting date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair values less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

3 Significant accounting policies continued

(l) Employee benefits continued

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as a personnel expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

(i) Warranties

A provision for warranties is recognised when underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on associated assets.

(n) Revenue recognition

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

All revenue is reported exclusive of value-added tax and other sales taxes.

(ii) Sale of software

The Promethean global software licence provided with the sale of hardware includes only a short-term warranty that guarantees the software will function in accordance with the published specification for 90 days from purchase. The Group has no contractual obligation to provide ongoing support or updates to this software. As a result the Group recognises revenue when the significant risks and rewards of ownership have been transferred to the customer. Other software that the Group provides that are not essential to the functionality of the hardware are sold and accounted for separately. For this software sold stand alone:

- Subscription revenue is recognised on a straight-line basis over the term of the subscription contract. Revenue not recognised in the income statement under this policy is classified as deferred income in the Statement of Financial Position.
- Software licences: the Group recognises the revenue attributable to software licences when all the following conditions have been satisfied:
  - the Group has transferred to the buyer the significant risks and rewards of ownership of the licence;
  - the amount of revenue can be measured reliably;
  - it is probable that the economic benefits associated with the transaction will flow to the Group; and
  - the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Where software is sold with contractual maintenance, the consideration is allocated between the different elements on a relative fair value basis. Revenue in respect of contractual maintenance is recognised on a straight-line basis over the period of the contract as services are provided equally over the course of the contract.

Notes continued
(forming part of the financial statements)

3 Significant accounting policies continued

(n) Revenue recognition continued

(iii) Maintenance contract sales

Revenue from maintenance contracts, extended warranties and enhanced service sales are recognised on a straight-line basis over the period of the contract as services are provided equally over the course of the contract.

Payments received in advance of services are recorded in the Statement of Financial Position as deferred income and are recognised in the Statement of Comprehensive Income proportionately over the period that the services are provided.

(iv) Training sales

Revenue from sales of training is recognised once the training has been provided.

(o) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(p) Finance income and expenses

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest and commitment fee expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(q) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised in respect of temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Exceptional costs

Exceptional costs are those that in management's view need to be disclosed by virtue of their size or non-recurring nature. Such items are included in the income statement under a caption to which they relate and are separately disclosed in the notes to the consolidated financial statements.

(s) Earnings per share

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary share outstanding, adjusted for own shares held, for the effect of all dilutive potential ordinary shares, which comprise share options granted to employees.

(t) Segment reporting

The Group's primary format for segment reporting is based on geographical sales destination. The geographical segments are determined based on the Group's management and internal reporting structure. The operating results for each segment are reviewed regularly by the Directors, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3 Significant accounting policies continued

(u) New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations issued by the International Accounting Standards Board became effective during the year but have no material effect on the Group's financial statements:

- Amendment to IAS 12 *Deferred Tax: Recovery of Underlying Assets*
- Amendment to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates For First-time Adopters*
- Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013 and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(ii) Intangible assets

Whilst goodwill is held at cost and development costs are valued at cost less amortisation, their carrying values are assessed to ensure that they do not exceed the lower of net realisable value and value in use at the end of each reporting period.

The fair value of goodwill is based on the discounted cash flows of the cash-generating units or product revenue as outlined in note 15.

The fair values of intangible assets recognised as a result of a business combination are based on market values, as determined by an independent valuation.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of products developed.

(iii) Trade and other receivables

The fair value of short-term trade and other receivables is deemed to be its book value less any impairment provision. The effect of discounting is considered to be immaterial.

(iv) Derivatives

The fair value of forward exchange contracts and interest rate swaps and caps are based on market valuations.

(v) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5 Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Executive Directors report regularly to the Board of Directors on Group risk management.

Notes continued
(forming part of the financial statements)

5 Financial risk management continued

Credit risk

Trade receivables are collected by credit control teams based in the US (for North American receivables) and the UK (for International receivables). Both these teams report into the Global Credit Manager who oversees the collection of all trade receivables. Credit limits are set as deemed appropriate for the customer. Sales to distributors and resellers are made based on recommended credit limits and, where suitable cover is available, credit insurance is used.

Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has in place a five-year £40m multicurrency revolving credit facility that can be drawn on the day of request; this facility will expire in March 2015. The interest rate is 195 basis points over LIBOR. The revolving credit facility was undrawn at 31 December 2012 (2011: undrawn).

In addition the Group manages all of its external bank relationships centrally in accordance with defined treasury policies. The policies include the minimum acceptable credit rating of relationship banks and financial transaction authority limits. Any material change to the Group's principal banking facility requires Board approval. The Group seeks to mitigate the risk of bank failure by ensuring that it maintains relationships with a number of investment grade banks.

As at 31 December 2012, the Group was cash positive with no outstanding external loans or borrowings.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily Sterling (GBP), US Dollars (USD), Euros (EUR) and the Chinese Renminbi (CNY). Transactions outside of these currencies are limited.

The Group reviews its net currency exposures for a rolling twelve-month period. The Group purchases the majority of its raw materials in USD which offsets a proportion of USD sales thereby reducing net foreign exchange exposure.

In calculating its net transaction exposure, the Group takes into account its trade receivables and trade payables denominated in a foreign currency. The Group uses forward exchange contracts as an economic hedge against currency risk, where cash flow can be judged with reasonable certainty. Foreign exchange swaps and options may be used to hedge foreign currency receipts in the event that the timing of the receipt is less certain.

Interest rate risk

As at 31 December 2012, the Group was cash positive with no outstanding external loans or borrowings.

Other market price risk

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

Capital management

The Board seeks to build a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The Group manages its capital on a short and long-term basis. In the short term the net cash position is monitored. This includes cash, cash equivalents, short-term deposits and debt. In the long-term the Group monitors shareholders' funds plus debt.

The Group currently has a positive net cash position of £8.0m (2011: £21.8m) and continues to carry no debt; therefore, the long-term capital employed is equivalent to the shareholders' funds as at 31 December 2012 of £55.9m (2011: £219.7m).

As outlined in note 15, during the year, the Group recognised an impairment charge of £140.5m in respect of its goodwill, which represents a significant reduction in shareholders' funds. The Board has actively protected its capital by not paying an interim or final dividend, to strengthen cash flows in response to both the prevailing conditions in many key markets and by reducing its operating cost base.

As outlined in note 26 and the Directors' Remuneration Report, the Group has share incentive schemes to further align executive management's interests with those of the ordinary shareholders.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6 Operating segments

The Group is comprised of two reportable segments based on the destination of sales (North America and International) and they do not arise as a result of an aggregation process. Each segment offers similar products but are managed separately on a geographical basis. The Board (CODM) reviews internal management reports on these segments on a monthly basis. Performance by segment is managed and reviewed to gross profit. For internal reporting purposes, aside from trade receivables, no allocation is made between these segments for balances in the statement of financial position, as, regardless of an asset's geographical location, it could serve each business segment. Disclosures for segment performance are provided in the tables below and overleaf:

2012 Group	**North America £000**	**International £000**	**Total Group £000**
Revenue	**82,789**	**74,212**	**157,001**
Reportable segmental profit (gross profit)	**32,802**	**24,836**	**57,638**
Reportable segmental assets (trade receivables)	**8,879**	**14,532**	**23,411**

2011 Group	North America £000	International £000	Total Group £000
Revenue	129,650	93,244	222,894
Reportable segmental profit (gross profit)	57,669	37,891	95,560
Reportable segmental assets (trade receivables)	13,200	19,132	32,332

Inter-segment trading

Inter-segment trading and profitability is not included in the information provided to the CODM and consequently has not been disclosed above. Revenue for each reportable segment reflects sales to external customers only. Reported segmental profits are adjusted for inter-segment profits and as such are stated using the costs to the Group rather than for each segment.

Reconciliation to (loss)/profit before income tax

Group	**2012 £000**	2011 £000
Reportable segmental profit (gross profit)	**57,638**	95,560
Sales and marketing expenses	**(37,076)**	(46,086)
Administrative expenses	**(9,253)**	(11,162)
Research and development (net)	**(6,207)**	(7,203)
Adjusted EBITDA	**5,102**	31,109
Depreciation	**(4,390)**	(3,918)
Amortisation	**(6,248)**	(3,769)
Adjusted operating (loss)/profit	**(5,536)**	23,422
Amortisation of acquired intangibles	**(801)**	(796)
Goodwill impairment – exceptional cost	**(140,503)**	—
Other exceptional costs	**(19,586)**	(5,963)
Exceptional income	**1,710**	1,282
Share-based payments	**(1,191)**	(530)
Net finance income/(expense)	**477**	(1,320)
(Loss)/profit before income tax	**(165,430)**	16,095

Notes continued
(forming part of the financial statements)

6 **Operating segments** continued

Reconciliation to total assets per statement of financial position

Group	2012 £000	2011 £000
Total assets for reportable segments	**23,411**	32,332
Unallocated amounts:		
All current assets excluding trade receivables	**28,505**	49,331
All non-current assets	**35,000**	177,803
Consolidated total assets	**86,916**	259,466

The only assets that the Group separately identifies by its segments are trade receivables. All other categories of asset and liability could serve each business segment and so are not allocated to a segment for the purposes of internal or statutory reporting.

Revenue by product

Group	2012 £000	2011 £000
Interactive display systems and accessories	**139,220**	196,228
Learner response systems	**17,781**	26,666
	157,001	222,894

Interactive display systems and accessories revenue by region

Group	2012 £000	2011 £000
North America	**68,593**	106,982
International	**70,627**	89,246
	139,220	196,228

Learner response systems revenue by region

Group	2012 £000	2011 £000
North America	**14,196**	22,668
International	**3,585**	3,998
	17,781	26,666

Revenue by country

	2012 £000	2011 £000
United States	**79,527**	126,367
United Kingdom (Company's country of domicile)	**15,658**	15,983
Russia	**14,333**	1,742
France	**5,305**	5,061
Germany	**4,364**	6,312
Netherlands	**3,024**	5,227
Spain	**1,882**	5,725
Australia	**1,626**	8,102
Italy	**1,127**	11,345
Other countries	**30,155**	37,030
	157,001	222,894

6 Operating segments continued

Major customers

For 2012 there was no customer (2011: one customer) who individually represented in excess of 10% of Group revenues for the year.

Geographical locations

The analysis of non-current assets excluding derivatives and deferred tax, by geographical location, is identified below:

Non-current assets

Group	2012 £000	2011 £000
United Kingdom	**21,925**	157,823
France	**27**	406
Germany	**—**	363
United States	**3,443**	14,877
China	**2,504**	2,247
	27,899	175,716

7 Revenue

Continuing operations

	2012 £000	2011 £000
Sales of goods	**154,783**	220,689
Services	**2,218**	2,205
	157,001	222,894

Services include maintenance and training.

8 Exceptional items

Exceptional costs

	2012 £000	2011 £000
Goodwill impairment	**140,503**	—
Reorganisation costs	**16,486**	2,869
Impairment of trade receivables	**3,100**	—
Impairment of investment in FlatFrog Laboratories A.B.	**—**	2,939
Share-based payment charge in respect of one-off IPO option scheme	**—**	155
Other exceptional costs	**19,586**	5,963
	160,089	5,963

Exceptional income

	2012 £000	2011 £000
Proceeds from sale of investment in FlatFrog Laboratories A.B.	**1,710**	—
Release of provision for contingent consideration	**—**	1,282
	1,710	1,282

Review of the Year

Directors' Report

Financial Statements

Notes continued
(forming part of the financial statements)

8 Exceptional items continued

Goodwill impairment

As at 30 June 2012, the Group re-appraised the carrying values of its assets in view of the current economic conditions. Consequently the goodwill, the vast majority of which arose from the 2004 investment by Apax in our business, was fully impaired and has been written off, resulting in an exceptional non-cash impairment charge of £140.5m. Further details are provided in note 15.

Reorganisation costs

In 2012 the Group incurred reorganisation costs of £16.5m (2011: £2.9m). These costs comprise redundancy costs of £5.6m, strategic product rationalisation costs of £5.5m (primarily relating to the impairment of certain curtailed development projects), a movement in the provision for onerous leases in respect of vacated properties of £1.4m, fixed asset impairments of £3.6m and other costs of £0.4m, all arising from the reorganisation of the Group to reduce its operating cost base in line with current market demand.

Impairment of trade receivables

The impairment loss recognised in the year relates to one specific reseller. Due to the material nature of the loss by virtue of size and that no material trade receivables have been impaired in previous financial years, management have treated this as an exceptional cost.

Sale of investment in FlatFrog Laboratories A.B.

On 17 December 2012, the Group sold its investment in FlatFrog Laboratories A.B. for proceeds of £1.7m. Prior to disposal this investment was carried at a fair value of £nil, having recognised a £2.9m impairment charge in 2011, and therefore an exceptional gain of £1.7m has been recognised in the year (2011: exceptional loss £2.9m).

9 Expenses and auditor's remuneration

Included in (loss)/profit are the following:

Group	2012 £000	2011 £000
Impairment loss on trade receivables and prepayments	**3,660**	108
Impairment loss on goodwill	**140,503**	—
Reorganisation costs included in operating expenses	**16,486**	5,808
Research and development expensed as incurred	**6,207**	7,203
Auditor's remuneration:		
Audit of these financial statements	**5**	5
Amounts receivable by auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**178**	174
Other services relating to taxation	**53**	33
All other services	**20**	16
Total auditor's remuneration	**256**	228

Operating expenses are analysed as follows:

Group	2012 £000	2011 £000
Sales and marketing	**37,076**	46,086
Administrative	**9,253**	11,162
Total research and development expenditure	**14,550**	16,131
Less: capitalised development expenditure	**(8,343)**	(8,928)
Research and development (net)	**6,207**	7,203
Depreciation	**4,390**	3,918
Amortisation	**6,248**	3,769
Amortisation of acquired intangible assets	**801**	796
Goodwill impairment – exceptional cost	**140,503**	—
Other exceptional costs	**19,586**	5,963
Exceptional income	**(1,710)**	(1,282)
Share-based payments	**1,191**	530
	223,545	78,145

10 Personnel expenses

Group	2012 £000	2011 £000
Wages and salaries	**35,232**	41,238
Social security contributions	**3,538**	4,050
Contributions to defined contribution plans	**1,233**	1,138
Share-based payments	**1,191**	685
	41,194	47,111

The average number of persons employed by the Group during the year was:

	2012	2011
Production	**147**	174
Research and development	**158**	139
Selling and distribution	**420**	443
Administration	**143**	129
	868	885

Directors' emoluments are disclosed in the Directors' Remuneration Report on page 44.

11 Finance income and expense

Recognised in profit or loss

Group	2012 £000	2011 £000
Interest income on bank deposits	**79**	69
Net change in fair value of financial assets at fair value through profit or loss	**—**	342
Foreign exchange gains	**912**	—
Finance income	**991**	411
Interest and commitment fee expense on bank and other loans	**(196)**	(198)
Debt issue costs amortised	**(64)**	(64)
Foreign exchange losses	**—**	(1,194)
Fair value adjustment to deferred/contingent consideration	**—**	(275)
Net change in fair value of financial assets at fair value through profit or loss	**(254)**	—
Finance expense	**(514)**	(1,731)
Net finance income/(expense) recognised in profit or loss	**477**	(1,320)

The above financial income and expense includes the following in respect of assets/(liabilities) not at fair value through profit or loss:

	2012	2011
Total interest income on financial assets	**79**	69
Total interest expense on financial liabilities	**(260)**	(262)

Notes continued
(forming part of the financial statements)

11 Finance income and expense continued

Recognised directly in equity

Group	2012 £000	2011 £000
Foreign currency translation differences – foreign operations	(536)	993
Net loss on net investments in foreign operations	(939)	(120)
Finance (expense)/income recognised directly in equity, net of tax[1]	(1,475)	873

	2012 £000	2011 £000
Recognised in:		
Translation reserve (FCTR)	(1,475)	873
Finance (expense)/income recognised directly in equity, net of tax[1]	(1,475)	873

1. All attributable to equity holders of the Company.

12 Taxation

Income tax expense

Group	2012 £000	2011 £000
Current tax expense		
Current period	2,426	3,752
Adjustment for prior periods	(1,066)	248
Current tax expense	1,360	4,000
Deferred tax expense		
Origination and reversal of temporary differences	(7,252)	1,646
Reduction in tax rates	(173)	(64)
Adjustments for prior periods	460	(659)
Deferred tax (credit)/expense	(6,965)	923
Total tax (credit)/expense	(5,605)	4,923

12 Taxation continued

Reconciliation of effective tax rate

Group	2012 Rate %	2012 £000	2011 Rate %	2011 £000
(Loss)/profit for the period		(159,825)		11,172
Total income tax (credit)/expense		(5,605)		4,923
(Loss)/profit excluding income tax		**(165,430)**		16,095
Income tax (credit)/expense using the Company's domestic tax rate	24.5%	(40,530)	26.5%	4,263
Effect of tax rates in foreign jurisdictions	(0.2%)	274	2.5%	400
Reduction in tax rate	(0.2%)	266	(0.6%)	(100)
Non-deductible expenses	(21.2%)	35,024	7.5%	1,208
Non-taxable income	0.3%	(419)	(2.1%)	(343)
Tax incentives	0.5%	(824)	(1.7%)	(271)
Change in unrecognised temporary differences	(0.7%)	1,210	1.1%	177
Over provided in prior periods	0.4%	(606)	(2.6%)	(411)
Total income tax (credit)/expense	**3.4%**	**(5,605)**	30.6%	4,923

Income tax recognised directly in equity

Group	2012 £000	2011 £000
Share-based payments	265	111
Total income tax debited directly to equity	265	111

Factors that may affect future tax charges

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014 and the December 2012 Autumn Statement announced a planned further reduction to 21% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011 and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This will reduce the Company's future current tax charge accordingly. The deferred tax asset at balance sheet date has been calculated based on the rate of 23% substantively enacted at the balance sheet date. It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax asset accordingly.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000
Property, plant and equipment	1,966	516	(554)	(684)	1,412	(168)
Intangible assets	—	—	(3,347)	(3,380)	(3,347)	(3,380)
Financial assets at fair value through profit or loss	—	—	(5)	(69)	(5)	(69)
Inventories	2,193	2,260	—	—	2,193	2,260
Lease rentals	45	68	—	—	45	68
Other items	1,386	1,133	(133)	(130)	1,253	1,003
Tax loss carry forwards	5,550	687	—	—	5,550	687
Tax assets/(liabilities)	11,140	4,664	(4,039)	(4,263)	7,101	401
Set off of tax	(4,039)	(2,577)	4,039	2,577	—	—
Net tax assets/(liabilities)	7,101	2,087	—	(1,686)	7,101	401

Notes continued
(forming part of the financial statements)

12 Taxation continued

Movement in temporary differences during the year

Group	Balance at 1 January 2011 £000	Recognised in profit or loss £000	Recognised in equity £000	Balance at 31 December 2011 £000	Recognised in profit or loss £000	Recognised in equity £000	**Balance at 31 December 2012 £000**
Property, plant and equipment	453	(621)	—	(168)	1,580	—	**1,412**
Intangible assets	(3,977)	597	—	(3,380)	33	—	**(3,347)**
Financial assets at fair value through profit or loss	18	(87)	—	(69)	64	—	**(5)**
Inventories	3,291	(1,031)	—	2,260	(67)	—	**2,193**
Lease rentals	73	(5)	—	68	(23)	—	**45**
Provisions	103	(103)	—	—	—	—	**—**
Other items	578	536	(111)	1,003	515	(265)	**1,253**
Tax loss carry forwards	896	(209)	—	687	4,863	—	**5,550**
	1,435	(923)	(111)	401	6,965	(265)	**7,101**

Tax losses arising during the year in the UK have been recognised in full as a deferred tax asset on the basis that these will be recovered against future taxable profits.

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following deductible temporary differences and unused tax losses (stated gross):

Group	**2012 £000**	2011 £000
Tax losses	**6,225**	3,687
Deductible temporary differences	**758**	793
	6,983	4,480

The unrecognised deferred tax in respect of tax losses primarily relates to the Group's foreign subsidiaries.

Neither the remaining tax losses nor the deductible temporary differences expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

At 31 December 2012 a deferred tax liability for temporary differences of £19,918,000 (2011: £17,140,000) relating to an investment in a subsidiary was not recognised (2011: £nil) because the Company controls whether the liability will be incurred and is satisfied that it will not be incurred in the foreseeable future.

The Group has no other unrecognised deferred tax assets or liabilities.

The Company has no unrecognised deferred tax assets or liabilities.

13 Dividends per ordinary share

In July 2012, in response to prevailing market conditions and measures planned to realign the Group's cost base, the Directors did not pay an interim dividend (2011: interim dividend paid of 0.80p per share, totaling £1,597,000).

The Directors do not propose a final dividend (2011: 1.70p per share) in respect of the year ended 31 December 2012. The total dividend for the year was therefore £nil (2011: £4,965,000).

14 Property, plant and equipment

Group	Freehold land and buildings £000	Plant and equipment £000	Total £000
Cost			
Balance at 1 January 2011	4,019	18,411	22,430
Additions	410	3,867	4,277
Disposals	(15)	(467)	(482)
Effect of movements in exchange rates	8	164	172
Balance at 31 December 2011	4,422	21,975	26,397
Additions	91	3,141	3,232
Disposals	(228)	(861)	(1,089)
Effect of movements in exchange rates	(137)	(214)	(351)
Balance at 31 December 2012	**4,148**	**24,041**	**28,189**
Depreciation and impairment losses			
Balance at 1 January 2011	810	6,618	7,428
Depreciation for the year	337	3,581	3,918
Impairment loss	274	274	548
Disposals	(3)	(458)	(461)
Effect of movements in exchange rates	5	82	87
Balance at 31 December 2011	1,423	10,097	11,520
Depreciation for the year	306	4,084	4,390
Impairment loss	523	3,050	3,573
Disposals	(228)	(854)	(1,082)
Effect of movements in exchange rates	(10)	(146)	(156)
Balance at 31 December 2012	**2,014**	**16,231**	**18,245**
Carrying amounts			
At 1 January 2011	3,209	11,793	15,002
At 31 December 2011	2,999	11,878	14,877
At 31 December 2012	**2,134**	**7,810**	**9,944**

The impairment loss recognised is as a result of the reorganisation, see note 8.

The Company had no property, plant and equipment as at either 31 December 2012 or 31 December 2011.

Security

At 31 December 2012 and at 31 December 2011, no assets were pledged as security.

Notes continued
(forming part of the financial statements)

15 Intangible assets

Group	Goodwill £000	Development costs £000	Customer contracts £000	Total £000
Cost				
Balance at 1 January 2011	140,541	19,660	194	160,395
Additions arising from internal development	—	8,928	—	8,928
External additions	—	455	—	455
Effect of movements in exchange rates	5	(1)	—	4
Balance at 31 December 2011	140,546	29,042	194	169,782
Additions arising from internal development	—	8,343	—	8,343
External additions	—	890	—	890
Effect of movements in exchange rates	(43)	(109)	(8)	(160)
Fully amortised assets	—	(228)	—	(228)
Balance at 31 December 2012	**140,503**	**37,938**	**186**	**178,627**
Amortisation and impairment losses				
Balance at 1 January 2011	—	4,335	27	4,362
Amortisation	—	4,503	62	4,565
Effect of movements in exchange rates	—	13	3	16
Balance at 31 December 2011	—	8,851	92	8,943
Impairment loss	140,503	4,443	—	144,946
Amortisation	—	6,986	63	7,049
Effect of movements in exchange rates	—	(32)	(6)	(38)
Fully amortised assets	—	(228)	—	(228)
Balance at 31 December 2012	**140,503**	**20,020**	**149**	**160,672**
Carrying amounts				
At 1 January 2011	140,541	15,325	167	156,033
At 31 December 2011	140,546	20,191	102	160,839
At 31 December 2012	**—**	**17,918**	**37**	**17,955**

Goodwill impairment

Background

The majority of the Group's goodwill arose in November 2004 and represented the premium of consideration paid by Chalkfree Limited for the book assets of the Promethean (Holdings) Limited Group. In 2010 the Group acquired 100% of SynapticMash Inc. and the goodwill arising on the transaction was c.£4.2m. Following this acquisition, the entity SynapticMash Inc. was integrated into Promethean's existing operations.

Goodwill allocation

Goodwill has been allocated between the Group's two CGUs (cash generating units), which are the Group's regional operations of North America and International. The goodwill allocation between the two CGUs, prior to impairment testing, was £6.1m to North America (2011: £6.1m) and £134.4m to International (2011: £134.4m). The North America CGU is primarily a sales and distribution division whose ultimate cash flows are determined by transfer pricing principles. The International division includes the corporate management team which inter alia controls the strategy, investment requirements and intellectual property of the Group through a centralised manufacturing process and centralised product development facility to ensure that one suite of products is sold throughout the world.

Impairment testing

In accordance with IAS 36 *Impairment of Assets* impairment tests on goodwill are performed annually or when an indicator of impairment is present. The recoverable amounts of all CGUs are based on value in use calculations. Value in use is determined by discounting the future cash flows generated from the continuing use of each CGU. It is considered appropriate to use a five-year forecast period and subsequently into perpetuity, with a discount rate applied. The cash flow projections are based on the budgets, forecasts, strategic plans, knowledge of the market and historic and forecast performance of the sector.

15 Intangible assets continued

Goodwill impairment continued

As at 30 June 2012

Following the deterioration in sales in the US market during the first half of 2012, continuing austerity measures heightening education budgetary pressures and a lack of short-term visibility in the education markets in the US and Europe, an impairment test was performed as at 30 June 2012.

The cash flow projections for the 18-month period from 30 June 2012 were based on forecasts produced in the light of the market conditions outlined above. Revenue growth assumptions for the remainder of the five-year period were based on the Group's five-year plan forecasts, which take into account the Group's historical experience in the context of wider industry and economic conditions and information obtained from external industry sources. In 2011, all five years of the cash flow projections were based on the Group's five-year plan.

In these forecasts, following an initial decline in revenues in 2012 and 2013, from the end of 2013 revenue was assumed to grow by a compound annual growth rate of 3.5% during the last three years of the forecast period from 2014 to 2016 (31 December 2011: five-year annual growth rate of 4.3% from the end of 2011). The assumed terminal growth rate after 2016 was 2% per annum (31 December 2011: 3%). Gross margins were assumed to be broadly maintained at historic levels (2011: same basis). EBITDA margins were forecast to increase from 9.0% to 10.3% over the forecast period (2011: 14% to 18%).

The overall assessment of value in use is most sensitive to changes in the assumed revenue growth and EBITDA margins.

The value in use calculation reflected the cost base as at 30 June 2012 and therefore did not include the future benefit of the resizing of the Group's cost base in H2 2012, announced in July 2012, as this had not been formally committed to as at 30 June 2012.

Future cash flows for each CGU were discounted at a pre-tax rate of 15.29% per annum (2011: 14.16% for each CGU). The discount rates are based on a weighted average cost of capital (WACC) for the Group as adjusted for risk. The WACC is derived by taking the average of the results using the Capital Asset Pricing Model (CAPM) and dividend growth model using market data.

The value in use analysis, the assumptions for which are outlined above, indicated that goodwill was fully impaired to the value of £140,503,000 (2011: significant headroom).

As at 31 December 2012

Whilst the macroeconomic uncertainty and pressure on education budgets is still evident in the key markets of the US and Europe, the Board remains confident in the long-term growth prospects of the markets in which the Group operates. The Group has maintained its market position and during the second half of 2012 has reduced its operating cost base to reflect the reduction in demand experienced during 2012.

In the Group's forecasts as at 31 December 2012 revenue is assumed to grow at a compound annual growth rate of 3.2% during the five-year forecast period from 2013 to 2017 (2011: 4.3% forecast period from 2012 to 2016). The assumed terminal growth rate after 2017 is 2% per annum (2011: 3% after 2016). Gross margins are assumed to be below historic levels (2011: broadly maintained at historic levels).

The value in use calculation as at 31 December 2012 reflects the future benefit of the resizing of the Group's cost base in H2 2012. Future cash flows of each CGU are discounted at a pre-tax rate of 16.03% per annum (2011: 14.16% for each CGU).

Sensitivity to changes in assumptions as at 31 December 2012

The value in use analysis as at 31 December 2012, the assumptions for which are outlined above, indicated that there remains significant headroom in relation to the valuation of net assets at that date, having recognised the £140,503,000 goodwill impairment as at 30 June 2012 (2011: significant headroom).

The overall assessment is most sensitive to changes in the assumed revenue growth and EBITDA margins.

Whilst it is conceivable that a key assumption in the calculation could change, with reasonably possible changes to key assumptions there is no indication that the carrying amount of the Group's net assets would be reduced to a lower amount.

The amount of goodwill that was tax deductible was £nil (2011: £nil).

Other intangible asset impairments

Following a review of the product roadmap, as part of the reorganisation of the business to reduce the operating cost base, an impairment charge of £4,443,000 (2011: £nil) has been recognised in respect of curtailed development projects.

Notes continued
(forming part of the financial statements)

16 Investments

Group	2012 £000	2011 £000
Non-current assets		
Investments – FlatFrog Laboratories A.B. at cost	—	2,939
Impairment charge recognised in the year	—	(2,939)
Net book value at 31 December	—	—

In 2011, the Group assessed the fair value of its investment in FlatFrog Laboratories A.B. as £nil and therefore recognised an exceptional impairment charge of £2,939,000.

On 17 December 2012, the Group sold its minority investment in FlatFrog Laboratories A.B. for cash proceeds of £1,710,000 and this has been recognised as exceptional income in the year.

The Company has the following interests in subsidiary undertakings:

Company	2012 £000	2011 £000
At 1 January	**90,091**	89,434
Additions in respect of share-based payments	**1,191**	657
Impairment charge recognised in the year	**(71,341)**	—
Net book value at 31 December	**19,941**	90,091

The impairment charge of £71,341,000 relates to the impairment of the Company's investment in Chalkfree Limited and has been included in the result for the year, see note 21. The resulting carrying value of the Company's assets is consistent with the Group's estimated value in use.

The undertakings in which the Company's interest at the period end is more than 20% are listed in note 31.

17 Derivative financial assets

Group	2012 £000	2011 £000
Current assets		
Financial assets designated at fair value through profit and loss	**74**	356
	74	356

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 27.

The Company had no derivative financial assets as at either 31 December 2012 or 31 December 2011.

18 Inventories

Group	2012 £000	2011 £000
Raw materials and consumables	**429**	498
Work in progress	**98**	159
Finished goods	**14,873**	17,580
	15,400	18,237

Inventories recognised as an expense during the year amounted to £78,125,000 (2011: £104,359,000).

Write-down of inventories during the year amounted to £422,000 (2011: £194,000) before exceptional charges.

The Company does not hold any inventory.

19 Trade and other receivables

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Trade receivables	**23,411**	32,332	**—**	—
Other receivables	**1,934**	4,506	**—**	—
Prepayments	**2,043**	2,781	**142**	206
Amounts due from Group entities	**—**	—	**55,761**	55,760
	27,388	39,619	**55,903**	55,966
Non-current	**—**	—	**—**	—
Current	**27,388**	39,619	**55,903**	55,966
	27,388	39,619	**55,903**	55,966

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 27.

20 Cash and cash equivalents

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Bank balances	**8,011**	13,802	**9**	111
Highly liquid investments	**—**	8,000	**—**	—
	8,011	21,802	**9**	111

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 27.

21 Capital and reserves

Reconciliation of movement in capital and reserves

Group	Share capital £000	Share premium £000	Capital reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2011	20,000	99,796	93,990	4,654	(6,177)	212,263
Total recognised income and expenses	—	—	—	873	11,172	12,045
Purchase of own shares by Employee Benefit Trust	—	—	—	—	(889)	(889)
Dividends to equity holders	—	—	—	—	(4,289)	(4,289)
Share-based payments (net of tax)	—	—	—	—	547	547
Balance at 31 December 2011	20,000	99,796	93,990	5,527	364	219,677
Total recognised income and expenses	—	—	—	(1,475)	(159,825)	(161,300)
Dividends to equity holders	—	—	—	—	(3,368)	(3,368)
Share-based payments (net of tax)	—	—	—	—	932	932
Balance at 31 December 2012	**20,000**	**99,796**	**93,990**	**4,052**	**(161,897)**	**55,941**

Notes continued
(forming part of the financial statements)

21 Capital and reserves continued

Reconciliation of movement in capital and reserves continued

Company	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 January 2011	20,000	99,796	9,004	128,800
Total recognised income and expenses	—	—	9,936	9,936
Purchase of own shares by Employee Benefit Trust	—	—	(889)	(889)
Dividends to equity holders	—	—	(4,289)	(4,289)
Share-based payments	—	—	657	657
Balance at 31 December 2011	20,000	99,796	14,419	134,215
Total recognised income and expenses	—	—	(71,408)	(71,408)
Dividends to equity holders	—	—	(3,368)	(3,368)
Share-based payments	—	—	1,191	1,191
Balance at 31 December 2012	**20,000**	**99,796**	**(59,166)**	**60,630**

Share capital

	Ordinary shares 2012	Ordinary shares 2011
In thousands of shares		
Share capital in issue at 1 January and 31 December	**200,000**	200,000

Kleinwort Benson (Jersey) Trustees Limited as trustees of the Chalkfree Employee Benefit Trust (EBT) hold shares on trust for the Company which are primarily issued to employees to satisfy the Company's obligations in relation to its share schemes. These shares are categorised as Treasury Shares and are excluded from the calculation of Earnings Per Share (see note 22). At 31 December 2012 the EBT held 943,033 shares in the Company (2011: 1,932,531 shares). During the year no shares were purchased by the EBT (2011: 1,600,000 shares purchased for £889,000).

During the year, no shares (2011: nil) were repurchased and subsequently cancelled.

Share incentive scheme

Details of share incentive schemes in existence at 31 December 2012 are disclosed in note 26.

Capital reserve

The capital reserve arose as a result of the Group reorganisation in 2010, where Promethean World Plc acquired the entire ordinary share capital of Chalkfree Limited by share for share exchange.

Translation reserve (FCTR)

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of assets relating to the Company's net investment in foreign subsidiaries.

22 Earnings per share

Basic earnings per share

The calculation of basic earnings per share is based on the (loss)/profit attributable to ordinary shareholders as disclosed below and a weighted average number of ordinary shares outstanding, calculated as follows:

(Loss)/profit attributable to ordinary shareholders

	2012 £000	2011 £000
(Loss)/profit for the year attributable to ordinary shareholders	**(159,825)**	11,172

Weighted average number of ordinary shares

	2012	2011
In thousands of shares		
Issued ordinary shares at 1 January	**200,000**	200,000
Less: weighted average Promethean World Plc shares held by the EBT	**(1,510)**	(709)
Effect of dilutive vested share options not yet exercised	**1,049**	504
Weighted average number of ordinary shares at 31 December	**199,539**	199,795
Basic (loss)/earnings per share (pence)	**(80.10)**	5.59

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2012 was based on (loss)/profit attributable to ordinary shareholders as disclosed below and a weighted average number of ordinary shares outstanding calculated as follows:

Group	2012 £000	2011 £000
(Loss)/profit attributable to ordinary shareholders (basic and diluted)	**(159,825)**	11,172
Weighted average number of shares (basic)	**199,539**	199,795
Effect of conversion of Promethean World Plc share options	**—**	1,881
Weighted average number of shares (diluted)	**199,539**	201,676
Diluted (loss)/earnings per share (pence)	**(80.10)**	5.54

Details of share options granted during the period can be found in note 26.

No adjustment has been made to the weighted average number of shares for the purpose of the diluted earnings per share calculation as the effect would be anti-dilutive.

At 31 December 2011 3,613,000 share options were excluded from the diluted weighted average number of ordinary shares as their effect would have been anti-dilutive.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

Notes continued
(forming part of the financial statements)

23 Trade and other payables

	Group 2012 £000	Group 2011 £000	**Company 2012 £000**	Company 2011 £000
Current				
Trade payables	**8,849**	13,840	**—**	—
Non-trade payables and accrued expenses	**8,457**	14,085	**—**	—
Deferred revenue	**6,176**	4,916	**—**	—
Other payables due to Group companies	**—**	—	**15,223**	11,953
	23,482	32,841	**15,223**	11,953
Non-current				
Operating lease liabilities	**—**	37	**—**	—
	—	37	**—**	—

24 Provisions

Group	As at 1 January 2012 £000	Created in the year £000	Utilised in the year £000	Released in the year £000	Exchange differences £000	Fair value adjustment[1] £000	**As at 31 December 2012 £000**	Current £000	Non-current £000
Warranty	2,593	1,983	(1,685)	—	—	—	**2,891**	2,891	—
Contingent consideration	453	—	(453)	—	—	—	**—**	—	—
Reorganisation provisions									
Restructuring	318	6,702	(5,275)	—	—	—	**1,745**	1,745	—
Onerous lease	817	1,393	(413)	—	—	—	**1,797**	798	999
Provisions	4,181	10,078	(7,826)	—	—	—	**6,433**	5,434	999

Group	As at 1 January 2011 £000	Created in the year £000	Utilised in the year £000	Released in the year £000	Exchange differences £000	Fair value adjustment[1] £000	As at 31 December 2011 £000	Current £000	Non-current £000
Warranty	1,959	1,709	(1,075)	—	—	—	2,593	2,593	—
Contingent consideration	1,493	—	—	(1,282)	(2)	244	453	453	—
Reorganisation provisions									
Restructuring	705	1,755	(2,142)	—	—	—	318	318	—
Onerous lease	430	500	(113)	—	—	—	817	590	227
Provisions	4,587	3,964	(3,330)	(1,282)	(2)	244	4,181	3,954	227

1. Fair value adjustments are included within finance income and finance expense (see note 11).

Warranty

The warranty provision is calculated by estimating the possible failure rates of the Group's hardware, with the exception of projectors which are covered by a third party warranty. The length of warranty period varies dependent on both the product and country it is sold to; this period can vary between one and five years.

The timing and frequency of product failures are inherently uncertain and for this reason the warranty provision has been disclosed as current.

Contingent consideration

The consideration payable for the acquisition of SynapticMash Inc. included a contingent element of $0.7m which was paid in January 2012.

In accordance with IFRS 3 (2008) *Business Combinations*, this provision was discounted to its present value on the date of acquisition. The fair value adjustment is charged to finance expenses in the income statement.

24 Provisions continued

Restructuring

As detailed in note 8 the Group has incurred reorganisation costs to restructure the business to significantly reduce its operating cost base. Accordingly, a further provision has been created for redundancy costs.

Onerous lease

As described in note 8 the onerous lease provision created in the year arises from the exit of certain of the Group's premises.

Approximate outflows from the remaining onerous leases are £0.8m in 2013, £0.6m in 2014, £0.2m in 2015 and £0.2m in 2016.

25 Employee benefits

The Group contributes to a number of defined contribution pension schemes providing benefits based upon the contributions made. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension charge for the year represents contributions payable by the Group to the schemes and amounted to £1,233,000 (2011: £1,138,000). There were no outstanding or prepaid contributions at either the beginning or end of each financial year.

26 Share-based payments

Description of share schemes

The Group has in place the following Long Term Incentive Plans (LTIPs):

Share option schemes:

- Chalkfree Limited Unapproved Company Share Option Plan (Chalkfree CSOP);
- IPO Option Plan (IPO Plan);
- Promethean Company Share Option Plan 2010 (PRW CSOP); and
- Promethean Performance Share Plan 2011 (PSP).

Share award schemes:

- Restricted Share Awards (RSA);
- Performance Share Awards (PSA); and
- Charlier Conditional Share Award (CCSA).

A summary of each of these LTIP schemes is provided below. Only the PRW CSOP and the PSP are now available for the grant of further awards to employees. The remaining arrangements relate to pre-IPO awards or, in the case of the IPO Plan, awards made in connection with the IPO, and no further awards will be made under these arrangements.

Share option schemes

Chalkfree Limited Unapproved Company Share Option Plan (Chalkfree CSOP)

The vesting conditions of the 2009 Chalkfree CSOP options are consistent with the 2009 PSA, as described below. In connection with the restructuring review carried out in 2012 and consistent with the approach for the 2010 PSA (see below), the vesting conditions of the 2010 Chalkfree CSOP options were waived and therefore these options will now vest, subject to continuing employment until 30 April 2014. Unvested options lapse ten years from the date of grant and will only become exercisable on a change of control (subject to continuing employment).

IPO Option Plan (IPO Plan)

The IPO Plan provided for a one-off grant, to eligible employees, of options to acquire shares in the Company at a nil exercise price. IPO options are now fully vested and remain exercisable for up to five years from the date of admission (subject to continuing employment) and will then lapse.

The Promethean Company Share Option Plan 2010 (PRW CSOP)

The PRW CSOP provides for the grant, to eligible employees, of options to acquire shares in the Company at an exercise price which may not be less than the market value of a share on the date of grant (or economically equivalent rights in jurisdictions in which for legal, regulatory or tax reasons this is more appropriate). All employees (including Executive Directors) of the Group are eligible to participate in the PRW CSOP at the discretion of the Remuneration Committee. More details of the PRW CSOP are included in the Directors' Remuneration Report on page 42.

Notes continued
(forming part of the financial statements)

26 Share-based payments continued

Share option schemes continued

The Promethean Performance Share Plan 2011 (PSP)

The PSP provides for the grant, to eligible employees, of options to acquire shares in Promethean World Plc normally at a nil or nominal exercise price (or economically equivalent rights in jurisdictions in which for legal, regulatory or tax reasons this is more appropriate). All employees (including Executive Directors) of the Group are eligible to participate in the PSP at the discretion of the Remuneration Committee. More details of the PSP are included in the Directors' Remuneration Report on page 41.

Description of share-based payments

On 26 March 2012, a total of 47,641 nil cost PSP option awards were made to certain members of the SMT in respect of part of their 2011 bonuses which were deferred into these awards.

On 30 April 2012, 3,031,000 nil cost PSP options were granted, in addition 90,000 were granted as share appreciation rights to be settled in cash on exercise. Also on 30 April 2012, 250,000 PRW CSOP share options with an exercise price of 51.625p per share were granted.

On 31 October 2012, a further 1,570,000 nil cost PSP options were granted. Other than where set out above, all awards are intended to be equity settled. In addition, also on 31 October 2012, 335,000 PRW CSOP share options with an exercise price of 17.37p per share were granted.

On 19 December 2012, a further 50,000 PRW CSOP share options were granted with an exercise price of 15.25p.

As at 31 December 2012, the number of unexercised options were as follows:

Grant date[1]	Employees entitled	Number of instruments (000s)	Contractual life of options[2]
7 August 2009 (2009 Chalkfree CSOP)	Key employees	497	10 years
7 August 2009 (2010 Chalkfree CSOP)	Key employees	638	10 years
24 November 2009 (2009 Chalkfree CSOP)	Key employees	9	10 years
24 November 2009 (2010 Chalkfree CSOP)	Key employees	131	10 years
14 April 2010 (IPO Plan)	Staff[3]	119	5 years
30 September 2010 (PRW CSOP)	Key employees	32	10 years
29 July 2011 (PSP)	Key employees[4,5]	2,580	10 years
29 July 2011 (PRW CSOP)	Key employees[4,5]	1,782	10 years
26 March 2012 (PSP) deferred bonus awards	SMT[6]	48	10 years
30 April 2012 (PSP)	Key employees[4,5]	2,116	10 years
30 April 2012 (PRW CSOP)	Key employees	200	10 years
31 October 2012 (PSP)	Key employees[4,5]	1,570	10 years
31 October 2012 (PRW CSOP)	Key employees	335	10 years
19 December 2012 (PRW CSOP)	Key employees	50	10 years
		10,107	

1. The grant dates listed are the execution dates that the terms of the grants were communicated to employees.
2. In the case of the IPO Plan the expiry date is five years from the date of the Company's admission to the London Stock Exchange. The options may lapse in the event of an employee leaving the business.
3. Employees, subject to service conditions, not included in other share incentive schemes at IPO.
4. A shorter contractual period applies to certain awards held by US participants, due to local tax implications.
5. Including Executive Directors as disclosed in the Directors' Remuneration Report.
6. Certain members of the SMT in respect of partial 2011 bonus deferral.

26 Share-based payments continued

Terms and conditions of the share option programme

The terms and conditions of the Chalkfree CSOP options and IPO Plan options are disclosed on page 81.

The PSP options granted in both 2011 and 2012 to Jim Marshall, Neil Johnson and other SMT members are subject to performance conditions, as set out in more detail in the Directors' Remuneration Report, in respect of awards held by Executive Directors. The awards will not typically be capable of vesting before the third anniversary of the date of grant. In respect of PSP options granted in 2011 to SMT members, but not those held by Executive Directors, as part of the restructuring review and in order to maintain the incentive effect of these awards, the performance targets have been waived such that vesting of these are subject to continuing employment only.

Deferred bonus awards were made under the PSP to certain members of the SMT in 2012. These are not subject to performance conditions and vest on a time basis over two years from the date of grant. Additional PSP options granted to other employees are not subject to performance conditions and vest on a time basis over three years from the date of grant.

The PRW CSOP share options granted to Jim Marshall, Neil Johnson and other SMT members in 2011 will vest subject to the conditions set out in detail in the Directors' Remuneration Report. The PRW CSOP options granted to other employees were granted as new joiner awards and will vest on the third anniversary of the date of grant, subject only to continuing employment.

Inputs for measurement of grant date fair values

The grant date fair values of the share options are measured based on the Black-Scholes model. The expected volatility has been calculated based on the median of the Company's comparator group's historical share price volatility over a period broadly comparable with the expected life of options.

The inputs used in measuring the fair value of the share option grants in 2012 were as follows:

	PSP (grant 26.03.12)	PSP (granted 30.04.12)	PSP (granted 30.04.12)	PRW CSOP (granted 30.04.12)	PSP (granted 31.10.12)	PRW CSOP (granted 31.10.12)	PRW CSOP (granted 19.12.12)
Fair value at grant date (pence)	**74.25**	**47.20**	**45.00**	**17.10**	**13.00**	**3.60**	**3.20**
Share price at grant date (pence)	**74.25**	**52.00**	**52.00**	**52.00**	**17.37**	**17.37**	**15.00**
Exercise price (pence)	**nil**	**nil**	**nil**	**51.625**	**nil**	**17.37**	**15.25**
Expected volatility	**53%**	**53%**	**53%**	**53%**	**56%**	**56%**	**56%**
Option life (expected)	**2.0 years**	**3.0 years**	**3.0 years**	**6.5 years**	**3.0 years**	**6.5 years**	**6.5 years**
Dividend yield	**4.80%**	**4.80%**	**4.80%**	**4.80%**	**9.78%**	**9.78%**	**9.78%**
Risk-free interest rate	**—**	**—**	**—**	**1.50%**	**—**	**1.15%**	**1.15%**

The inputs used in measuring the fair value of the share option grants in 2011 were as follows:

	PSP (granted 29.07.11)	PSP[1] (granted 29.07.11)	PRW CSOP (granted 29.07.11)	PRW CSOP[1] (granted 29.07.11)
Fair value at grant date (pence)	56.00	54.00	23.00	17.00
Share price at grant date (pence)	59.75	59.75	59.75	59.75
Exercise price (pence)	nil	nil	59.75	59.75
Expected volatility	53%	53%	53%	53%
Option life (expected)	3.0 years	3.0 years	6.5 years	5.0 years
Dividend yield	3.6%	3.6%	3.6%	3.6%
Risk-free interest rate	1.1%	1.1%	2.3%	1.1%

1. 2011 options granted to Jim Marshall, Neil Johnson and SMT members.

Notes continued
(forming part of the financial statements)

26 Share-based payments continued

Income statement charge

The share-based payment charge for the year was £1,191,000 (2011: £685,000) comprising £1,177,000 (2011: £657,000) in respect of share options, credit £6,000 (2011: charge of £1,000) in respect of share appreciation rights to overseas employees where share option schemes are not practical and £20,000 in respect of restricted share awards (see below) and £nil (2011: £27,000) in respect of employer's taxation. Of the total charge, £nil related to the IPO Plan (2011: £155,000 disclosed within exceptional costs).

Disclosure of movements in share options

The number and weighted average exercise prices of share options are as follows:

	Options in issue as at 1 January 2012 (000s)	Granted in the year (000s)	Exercised/ lapsed in year (000s)	**Options in issue as at 31 December 2012 (000s)**	Option price per share (pence)	Weighted average share price at date of exercise (pence)	Weighted average contractual life remaining (years)
2009 Chalkfree CSOP	872	—	(366)	**506**	5.25	46.7	5.2
2010 Chalkfree CSOP	1,034	—	(265)	**769**	5.25	47.5	5.8
IPO Plan	189	—	(70)	**119**	—	50.9	2.2
PRW CSOP – 2010 grant	232	—	(200)	**32**	125.00	n/a	7.8
PSP – 2011 grant	3,633	—	(1,053)	**2,580**	—	21.4	8.2
PRW CSOP – 2011 grant	3,501	—	(1,719)	**1,782**	59.75	n/a	8.6
PSP – 2012 deferred SMT bonus	—	48	—	**48**	—	n/a	8.4
PSP – April 2012 grant	—	3,031	(915)	**2,116**	—	n/a	9.3
PSP – October 2012 grant	—	1,570	—	**1,570**	—	n/a	9.8
PRW CSOP – April 2012	—	250	(50)	**200**	51.63	n/a	9.3
PRW CSOP – October 2012	—	335	—	**335**	17.37	n/a	9.8
PRW CSOP – December 2012	—	50	—	**50**	15.25	n/a	9.9
Total options	9,461	5,284	(4,638)	**10,107**	n/a	n/a	8.4

	Options in issue as at 1 January 2011 (000s)	Granted in the year (000s)	Exercised/ lapsed in year (000s)	Options in issue as at 31 December 2011 (000s)	Option price per share (pence)	Weighted average share price at date of exercise (pence)	Weighted average contractual life remaining (years)
2009 Chalkfree CSOP	927	—	(55)	872	5.25	54.4	7.6
2010 Chalkfree CSOP	1,326	—	(292)	1,034	5.25	54.3	7.7
IPO Plan	502	—	(313)	189	—	61.6	3.2
PRW CSOP – 2010 grant	232	—	—	232	125.00	n/a	8.8
PSP – 2011 grant	—	3,633	—	3,633	—	n/a	9.6
PRW CSOP – 2011 grant	—	3,501	—	3,501	59.75	n/a	9.6
Total options	2,987	7,134	(660)	9,461	n/a	n/a	9.1

Share award schemes

Restricted Share Awards (RSA)

The former CEO and the CFO and a number of senior employees had, in prior years, acquired ordinary shares in Chalkfree Limited at 10p per share (post IPO these are now shares in the Company at 5.25p per share). The Restricted Shares vest on a monthly basis over a four or, in some cases, a five-year period. These shares will normally be forfeited on cessation of employment. All RSA have now either vested or lapsed.

26 Share-based payments continued

Share award schemes continued

Performance Share Awards (PSA)

In August 2009, certain senior employees including the CFO subscribed for awards of ordinary shares in Chalkfree Limited at 10p per share (post IPO these are now shares in the Company at 5.25p per share). Each eligible employee holds two awards of shares, a 2009 award and a 2010 award. The vesting conditions for these awards are described in the Directors' Remuneration Report. The shares are subject to contractual restrictions on transfer until they have vested. If the shares do not vest (or normally on cessation of employment), the employees will not receive any economic benefit from these awards.

2009 PSA

Under the 2009 award the Base Shares vest in three equal tranches at 30 April 2010, 30 April 2011 and 30 April 2012 and the Superior Shares vest on 30 April 2012 subject to the satisfaction of EBITDA performance targets for the three financial years ending 31 December 2011. In connection with the restructuring review carried out in 2012, the Company waived its right to repurchase unvested shares held (other than those held by the CFO) and therefore those shares are now vested in full.

2010 PSA

Under the 2010 award the Base and the Superior Shares will vest on 30 April 2013 subject to the satisfaction of a cumulative EBITDA performance measured over the whole of the three financial years ending 31 December 2012. In connection with the restructuring review carried out in 2012, the performance targets in respect of these shares were waived (other than those held by the CFO) and therefore those shares will now vest subject to continuing employment to 30 April 2013.

Charlier Conditional Share Award (CCSA)

The shares under the CCSA were acquired by Mrs Alexandra Charlier, wife of Jean-Yves Charlier, from certain of the Cann family trusts prior to the IPO. The CCSA will vest as outlined in the Directors' Remuneration Report on page 45.

Fair value

The awards were settled at fair value and all awards were subscribed and settled in full at the date of grant.

In the opinion of the Directors, the share price at the date of grant was no more than par value, therefore no IFRS 2 *Share-based Payment* charge had been reflected in the income statement. Following changes to the CCSA as set out in the Directors' Remuneration Report, the fair value of the CCSA was recalculated and increased by £121,000 for the remainder of the vesting period. As set out in the Directors' Remuneration Report, following Jean-Yves Charlier's cessation of employment in September 2012, the total charge to the income statement for this increase was £20,000 and no further charges arise.

Disclosure of the movements in share awards

The number of share awards outstanding in 2012 was as follows:

	RSA shares (000s)	PSA shares (000s)	CCSA shares[1] (000s)	Total LTIP shares (000s)
Share awards at 1 January 2011	1,195	1,594	1,905	4,694
Vested in the year 2011	(1,172)	(202)	—	(1,374)
Share awards at 1 January 2012	23	1,392	1,905	3,320
Vested in the year	(23)	(938)	(323)	(1,284)
Lapsed in the year	—	(25)	(1,582)	(1,607)
LTIP share awards as at 31 December 2012	**—**	**429**	**—**	**429**

1. This award is held by Jean-Yves Charlier, who left the Company on 24 September 2012. Full details are set out in the Directors' Remuneration Report on page 42.

Notes continued
(forming part of the financial statements)

27 Financial instruments

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was:

	Group 2012 £000	Group 2011 £000
Financial assets at fair value through profit or loss	**74**	356
Trade receivables	**23,411**	32,332
Other receivables	**1,934**	4,506
Cash and cash equivalents	**8,011**	21,802
	33,430	58,996

The Company had no financial assets exposed to credit risk at either 31 December 2012 or 31 December 2011.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Group	2012 £000	2011 £000
North America	**8,879**	13,200
International	**14,532**	19,132
	23,411	32,332

The maximum exposure to credit risk for trade receivables at the reporting date by type of counterparty was:

Group	2012 £000	2011 £000
Wholesale customers	**23,351**	32,288
Local authorities/schools and colleges	**60**	44
	23,411	32,332

Impairment losses

The ageing of trade receivables that were not impaired at the reporting date was as follows:

Group	2012 £000	2011 £000
Not past due	**19,868**	26,396
Past due 0–30 days	**1,308**	3,689
Past due 31–120 days	**1,451**	2,247
Past due more than 120 days	**784**	—
	23,411	32,332

27 Financial instruments continued

Impairment losses continued

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

Group	2012 £000	2011 £000
Balance at 1 January	**464**	413
Impairment loss recognised	**3,660**	108
Amounts written off	**(90)**	(57)
Balance at 31 December	**4,034**	464

As outlined in note 5, the Group manages credit risk by allocating customers a credit limit and ensuring the Group's exposure is within this limit. This approach is strengthened with the use of credit insurance when management considers it to be appropriate. The credit insurance policy does not require any collateral to be held as security. Accordingly management considers the current level of impairment provision in respect of trade receivables appropriate. Included in the impairment loss recognised in the year, £3.1m relates to one specific reseller. Consequently, due to the material nature of the loss by virtue of size and that no material trade receivables have been impaired in previous financial years, management are of the opinion that the amount should be disclosed as an exceptional cost.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

2012 Group	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6–12 months £000	1–2 years £000	2–5 years £000	More than 5 years £000
Non-derivative financial liabilities							
Trade and other payables[1]	17,306	17,306	17,306	—	—	—	—
Derivative financial liabilities							
Foreign exchange contracts	55	55	40	15	—	—	—
	17,361	**17,361**	**17,346**	**15**	**—**	**—**	**—**

1. Excludes deferred revenue.

2011 Group	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6–12 months £000	1–2 years £000	2–5 years £000	More than 5 years £000
Non-derivative financial liabilities							
Trade and other payables[1]	27,962	27,962	27,925	—	37	—	—
Derivative financial liabilities							
Foreign exchange contracts	83	83	47	36	—	—	—
	28,045	28,045	27,972	36	37	—	—

1. Excludes deferred revenue.

At both 31 December 2012 and 31 December 2011, no derivatives were designated as cash flow hedges.

At both 31 December 2012 and 31 December 2011, the Company had no trade and other payables.

Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk in respect of the current assets and liabilities per the statement of financial position and forward foreign exchange contracts was as follows, based on notional amounts (all amounts are expressed in thousands):

	2012				2011			
Group	GBP	USD	EUR	CNY	GBP	USD	EUR	CNY
Trade receivables	**1,542**	**26,541**	**5,957**	**5,967**	1,689	37,046	8,305	—
Trade payables	**(1,248)**	**(9,487)**	**(212)**	**(15,934)**	(2,052)	(11,953)	(630)	(34,890)
Gross statement of financial position exposure	**294**	**17,054**	**5,745**	**(9,967)**	(363)	25,093	7,675	(34,890)
Forward exchange contracts buy/(sell)	**7,385**	**—**	**(9,000)**	**—**	12,350	(5,000)	(10,500)	—
Net exposure	**7,679**	**17,054**	**(3,255)**	**(9,967)**	11,987	20,093	(2,825)	(34,890)

Notes continued
(forming part of the financial statements)

27 Financial instruments continued

Currency risk continued

Exposure to currency risk continued

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2012	2011	**2012**	2011
USD	**1.5830**	1.6097	**1.6168**	1.5456
EUR	**1.2420**	1.1546	**1.2234**	1.1936
CNY	**10.0650**	10.3663	**10.2120**	9.8372

Sensitivity analysis

The table below details the Group's sensitivity to a 10% strengthening in GBP against the relevant foreign currencies. A 10% sensitivity has been used in 2012 and 2011 as it is considered a reasonable approximation of the range in which GBP may fluctuate against the USD and Euro.

The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis also includes the impact on the Group results of translating the closing net assets of foreign entities with a 10% movement in foreign currency rates and a 5% (average) movement on their earnings. The calculation also takes account of the effect on foreign currency revenues, purchases, assets and liabilities of the Group's UK legal entities.

This analysis assumes that all other variables, in particular interest rates, remain constant.

Group	Equity £000	Profit/(loss) £000
31 December 2012		
USD	**(3,518)**	**(310)**
EUR	**(1,272)**	**(494)**
CNY	**(1,877)**	**(169)**
31 December 2011		
USD	(3,268)	(300)
EUR	(909)	(102)
CNY	(1,621)	(146)

A 10% weakening of GBP against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

In management's opinion the sensitivity analysis is unrepresentative of the inherent foreign exchange risk, as the year-end exposure does not reflect the exposure during the year. USD and Euro denominated sales are seasonal which results in a reduction in USD and Euro receivables at the year end.

Interest rate risk

At 31 December 2012 and 31 December 2011, the Group had no drawn interest-bearing financial liabilities.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model.

Following the repayment of the Group's hedged bank loans in March 2010, the Group terminated its interest rate swap agreement. No further interest rate hedging arrangements have been entered into since.

27 Financial instruments continued

Interest rate risk continued

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
Group	100 bp increase £000	100 bp decrease £000	100 bp increase £000	100 bp decrease £000
2012				
Variable rate instruments	**80**	**(39)**	**80**	**(39)**
Cash flow sensitivity (net)	**80**	**(39)**	**80**	**(39)**
2011				
Variable rate instruments	218	(170)	218	(170)
Cash flow sensitivity (net)	218	(170)	218	(170)

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	2012		2011	
Group	**Carrying amount £000**	**Fair value £000**	Carrying amount £000	Fair value £000
Trade and other receivables[1]	**25,345**	**25,345**	36,838	36,838
Cash and cash equivalents	**8,011**	**8,011**	21,802	21,802
Forward exchange contracts – assets	**74**	**74**	356	356
Forward exchange contracts – liabilities	**(55)**	**(55)**	(83)	(83)
Trade and other payables[2] – current	**(17,306)**	**(17,306)**	(27,925)	(27,925)
Trade and other payables[2] – non-current	**—**	**—**	(37)	(37)
	16,069	**16,069**	30,951	30,951

1. Excludes prepayments.

2. Excludes deferred revenue.

The basis for determining fair values is disclosed in note 4.

Fair value hierarchy

The Group classifies the methodology by which it fair values its financial instruments as one of the following different levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All the Group's financial instruments at fair value, with the exception of contingent consideration, are valued in accordance with the Level 2 methodology.

Notes continued
(forming part of the financial statements)

28 Operating leases

The total remaining rentals payable under non-cancellable operating leases are as follows:

Group	2012 £000	2011 £000
In less than one year	**1,983**	2,279
Between one and five years	**2,225**	3,380
In more than five years	**—**	105
	4,208	5,764

Operating lease rentals expensed in the statement of comprehensive income were as follows:

Group	2012 £000	2011 £000
Operating lease charge	**2,475**	2,435

The Group has operating lease contracts in place for buildings, equipment hire and vehicles.

The buildings leases cover many of the sites in the UK and also business premises in the US, China, France and Germany and sales offices in Hong Kong, Australia, Bahrain and Singapore. The duration of these leases do not exceed ten years.

Operating leases in respect of vehicles generally have a three-year term.

Operating lease terms in respect of equipment typically range between three and five years.

The operating lease commitments disclosed above include those provided through the onerous lease provision (see note 24).

The Company does not hold any operating leases.

29 Capital commitments

At 31 December 2012, the Group had capital commitments of £376,000 (2011: £440,000). These commitments are expected to be settled in the following financial year.

The Company had no capital commitments as at either 31 December 2012 or 31 December 2011.

30 Related parties

Transactions with key management personnel

Loans to Directors

At 31 December 2012 and 31 December 2011, there were no loans outstanding to Directors.

Key management personnel compensation

In addition to their salaries, the Group also provides non-cash benefits to Directors and Executive Officers and contributes to a post-employment defined contribution plan on their behalf.

Key management personnel compensation comprised:

Group	2012 £000	2011 £000
Short-term employee benefits	**3,120**	5,096
Post-employment benefits	**172**	161
Termination benefits	**1,410**	—
Share-based payments	**746**	206
	5,448	5,463

Key management includes both Executive and Non-Executive Board Directors and other members of the Group's Senior Management Team (SMT). In 2012, six SMT members left the business and four new SMT members were appointed. As at 31 December 2012 there were 15 key management (2011: 17).

30 Related parties continued

Transactions with key management personnel continued

Key management personnel and Director transactions

Certain Directors, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with Directors and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to these related party transactions were as follows:

	Transaction value sale/(purchase)		Balance outstanding debtor/(creditor)	
Group	**Year ended 2012 £000**	Year ended 2011 £000	**Year ended 2012 £000**	Year ended 2011 £000
Whitebirk Finance Limited	**(120)**	(120)	**—**	—

Whitebirk Finance Limited, a company owned by Tony Cann, owns and leases Promethean House to the Group.

In December 2011 the Group entered into heads of terms with Whitebirk Finance Limited to vacate Promethean House.

Pursuant to the heads of terms, on 15 February 2012 the Group entered into a deed of variation with Whitebirk Finance Limited. In consideration for a payment of £350,000 the landlord agreed that the lease term be shortened to a revised term compatible with the relocation timetable and in consideration for a payment of £150,000 that all dilapidation liabilities will be settled in full.

Given the prevailing market conditions in the Group's key trading markets and the failure to agree lease terms in respect of the proposed new head office it was subsequently agreed that the Group would remain in Promethean House and a new lease be granted to Promethean Limited on substantially the same terms as the former lease. Upon execution of the new lease £380,000 was repaid to the Group with the £120,000 balance being retained by Whitebirk Finance Limited as advance payment for the first year's rent. No dilapidations payment was made to Whitebirk Finance Limited.

The UKLA were consulted in relation to the aforementioned arrangements and independent advice was sought by the Group from Knight Frank LLP as to the reasonableness of the amount and terms agreed.

Other Group related party transactions

In the ordinary course of business, goods are manufactured in China and supplied to the UK for sale on to either the Group's sales and distribution offices in the US, France and Germany or directly to external customers. All transactions and outstanding balances with these related parties are priced on an arm's length basis and are to be settled in the ordinary course of business. None of the balances are secured.

Company related party transactions

The Company transacts and has outstanding balances with certain of its subsidiaries. Amounts due from subsidiaries and amounts due to subsidiaries are disclosed in the notes to the financial statements.

No interest is charged on amounts due from Group entities.

No dividends were received from subsidiaries in the year (2011: £10m).

Notes continued
(forming part of the financial statements)

31 Group entities

Significant subsidiaries as at 31 December 2012

Subsidiary undertaking	Country of registration	Principal activity	Class and percentage of shares held
Chalkfree Limited	England and Wales	Holding company	Ordinary £0.10 shares 100%
Promethean (Holdings) Limited	England and Wales	Holding company	Ordinary £1 shares 100%
Promethean Limited	England and Wales	Distributor of electronic equipment	Ordinary £1 shares 100%
Promethean GmbH	Germany	Distributor of electronic equipment	Ordinary €1 shares 100%
Promethean SAS	France	Distributor of electronic equipment	Ordinary €1,193 shares 100%
Promethean Inc.	USA	Distributor of electronic equipment	Ordinary $0.01 shares 100%
Promethean Technology (Shenzhen) Limited	China	Manufacturer and distributor of electronic equipment	Ordinary shares 100%
Promethean World Inc.[1]	USA	Non-trading	Ordinary $0.001 shares 100%
Promethean Technology Limited[1] (formerly Promethean World Limited)	England and Wales	Non-trading	Ordinary £1 shares 100%

1. Dormant companies.

With the exception of Chalkfree Limited all of the above are indirect holdings.

All of the above undertakings are included within the consolidated results.

B. Accountants' Report of Promethean for the year ended 31 December 2013

Independent Auditor's Report

to the members of Promethean World Plc only

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Promethean World plc for the year ended 31 December 2013 set out on pages 66 to 104. In our opinion:

→ the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 and of the Group's loss for the year then ended;

→ the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);

→ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and

→ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on the audit were as follows:

Valuation of intangible assets (£14.219 million):

Refer to page 36 (Report of the Audit Committee), page 75 (accounting policy) and page 89 (financial disclosures)

→ **The risk** – Intangible assets relate to capitalised development costs. Costs are capitalised where the criteria of accounting standards are met. In assessing these criteria the Group makes assumptions relating to the future commercial viability of the respective projects and their ability to generate future revenues. Due to the inherent uncertainty involved in forecasting future revenues and discounting future net cash flows, which are the basis of the assessment of both the criteria for initial capitalisation and for recoverability of capitalised amounts, this is one of the key judgemental areas of our audit.

→ **Our response** – In this area our audit procedures included, among others:

In respect of assessing whether amounts capitalised met the requirements of accounting standards, testing the Group's controls over the assessment of the capitalisation criteria. These included testing controls over the appropriate authorisation and allocation of development costs to projects and assessing the output from discussions held by project managers, who assess the progress of relevant projects, at quarterly development meetings. We considered the track record of the Group in bringing newly developed products to market and we considered market data prepared by external experts engaged by the Group, where available, to assess the likelihood of commercial viability.

In respect of assessing whether amounts capitalised were impaired we considered forecast revenues on a project by project basis and challenged the Group's assumptions with regard to historical actual trends and past performance on forecasting accuracy. We also considered the adequacy of the Group's disclosures in respect of the judgements and estimates made in respect of valuation of intangible assets.

Valuation of inventories (£8.670 million):

Refer to page 36 (Report of the Audit Committee), page 76 (accounting policy) and page 90 (financial disclosures)

→ **The risk** – The Group has significant levels of inventory. Judgement is required to categorise inventory as obsolete and/or slow moving, where it may not be possible to obtain sales prices in excess of cost. The Group estimates the amount of provision required for this inventory based on expected sales plans, year end inventory levels and expected product changes. Given the level of judgements and estimates involved this is considered to be one of the key areas that our audit is concentrated on.

→ **Our response** – Our audit procedures included, among others, testing the design and effectiveness of the Group's controls over the identification of slow moving and obsolete inventories. To assess the level of provision applied to each product or category of product we considered: the historical accuracy of the Group's provisions made in prior years, including considering the level of inventory write offs and releases of unutilised provisions; publicly available product release information; and realisations, by product group, of inventories during the year and after the year end. We compared these to the Group's expected recoveries for inventory categorised as obsolete and slow moving at the year end to assess whether the provision was appropriate. We also considered the adequacy of the Group's disclosures in respect of the judgements and estimates made in respect of inventory provisioning.

Valuation of trade receivables (£19.166 million):

Refer to page 37 (Report of the Audit Committee), page 76 (accounting policy) and pages 90 and 97 to 99 (financial disclosures)

→ **The risk** – The Group has a significant level of trade receivables, some of which are overdue, and so there is a risk over the recoverability of these balances. The Group obtains credit insurance for some balances but can only claim against this insurance when the terms of the policies are met. Changes in assumptions and estimates in the provisioning policies applied would have a significant effect on the results and financial position of the Group.

→ **Our response** – Our audit procedures included, among others:

In respect of insured balances we tested a judgemental sample of the Group's controls over the receivables collection processes which included confirming cash received is allocated to the correct customer account and that credit insurance policy terms, including credit limits, were complied with.

In respect of uninsured balances we tested a judgemental sample of the Group's controls over the receivables collection processes. This included confirming cash received is allocated to the correct customer account; that the Group investigated the ageing analysis on a regular basis and that action plans for recovery of older balances were agreed with the credit controllers. We compared the receipt of cash after the year end against the year end balances and tested the adequacy of the Group's provision against trade receivables. We assessed the Group's assumptions within the provision, taking account of the Group's recent track record in recovering overdue balances.

We have also considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £0.8 million. This has been determined with reference to a benchmark of Group revenues (of which it represents 0.6%) which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

We agreed with the Audit Committee to report to it all adjusted and unadjusted misstatements we identified through our audit with a value in excess of £40,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed at four key reporting components in the following countries: two in the UK, one in the USA (the work on the components in the UK and USA is performed by the Group audit team), and a further one in China audited by a component auditor.

The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by, or agreed with, the group audit team. These materiality levels were set individually for each component, and ranged from £0.35 million to £0.8 million.

Detailed instructions were sent to the component auditor in China. These instructions covered the significant areas that should be covered by the component auditor in this audit (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the group audit team. In addition we were involved in telephone discussions to understand the planned approach and the audit findings by the component auditor in China.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

→ the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

→ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

→ we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or

→ the Report of the Audit Committee included within the Corporate Governance section of the Annual Report and Accounts does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

→ adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

→ the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

→ certain disclosures of Directors' remuneration specified by law are not made; or

→ we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

→ the Directors' statement, set out on page 62, in relation to going concern; and

→ the part of the Corporate Governance Statement on page 29 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement, set out on page 63, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Stuart Burdass (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
St James' Square
Manchester
M2 6DS
26 February 2014

Consolidated Income Statement

for the year ended 31 December

	Note	2013 £000	2012 £000
Revenue	7	**141,158**	157,001
Cost of sales		**(90,572)**	(99,363)
Gross profit		**50,586**	57,638
Operating expenses	9	**(56,491)**	(223,545)
Analysis of results from operating activities:			
Earnings before interest, tax, depreciation, amortisation, exceptional items and share-based payments		**9,407**	5,102
Depreciation and amortisation (excluding amortisation of acquired intangible assets)		**(10,129)**	(10,638)
Amortisation of acquired intangible assets		**(782)**	(801)
Goodwill impairment – exceptional cost	8	**—**	(140,503)
Other exceptional costs	8	**(4,267)**	(19,586)
Exceptional income	8	**742**	1,710
Share-based payments		**(876)**	(1,191)
Results from operating activities		**(5,905)**	(165,907)
Finance income	11	**192**	991
Finance expense	11	**(993)**	(514)
Net finance (expense)/income	11	**(801)**	477
Loss before income tax		**(6,706)**	(165,430)
Income tax credit	12	**909**	5,605
Loss for the year[1]		**(5,797)**	(159,825)
Loss per share			
Basic loss per share (pence)	22	**(2.89)**	(80.10)
Diluted loss per share (pence)	22	**(2.89)**	(80.10)

1. All attributable to equity shareholders.

The loss for the year and loss per share are entirely from continuing operations.

The notes on pages 71 to 104 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December

	2013 £000	2012 £000
Loss for the year from the income statement	**(5,797)**	(159,825)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences – foreign operations	**291**	(536)
Net loss on net investments in foreign operations	**(209)**	(939)
	82	(1,475)
Total comprehensive income for the year[1]	**(5,715)**	(161,300)

1. All attributable to equity shareholders.

The loss for the year and loss per share are entirely from continuing operations.

The notes on pages 71 to 104 are an integral part of these financial statements.

Financial statements

Statements of Financial Position

as at 31 December

Registered number 7118000

	Note	**Group 2013 £000**	Group 2012 £000	**Company 2013 £000**	Company 2012 £000
Assets					
Property, plant and equipment	14	**7,741**	9,944	**—**	—
Intangible assets	15	**14,219**	17,955	**—**	—
Investments	16	**—**	—	**20,807**	19,941
Deferred tax assets	12	**8,326**	7,101	**—**	—
Total non-current assets		**30,286**	35,000	**20,807**	19,941
Inventories	18	**8,670**	15,400	**—**	—
Derivative financial assets	17	**163**	74	**—**	—
Trade and other receivables	19	**24,601**	27,388	**56,588**	55,903
Current tax assets		**838**	1,043	**—**	—
Cash and cash equivalents	20	**17,591**	8,011	**8**	9
Total current assets		**51,863**	51,916	**56,596**	55,912
Total assets		**82,149**	86,916	**77,403**	75,853
Liabilities					
Trade and other payables	23	**(25,937)**	(23,482)	**(16,161)**	(15,223)
Derivative financial liabilities	27	**—**	(55)	**—**	—
Provisions	24	**(3,735)**	(5,434)	**—**	—
Current tax liabilities		**(779)**	(1,005)	**—**	—
Total current liabilities		**(30,451)**	(29,976)	**(16,161)**	(15,223)
Provisions	24	**(685)**	(999)	**—**	—
Total non-current liabilities		**(685)**	(999)	**—**	—
Total liabilities		**(31,136)**	(30,975)	**(16,161)**	(15,223)
Net assets		**51,013**	55,941	**61,242**	60,630
Equity					
Share capital	21	**20,000**	20,000	**20,000**	20,000
Share premium		**99,796**	99,796	**99,796**	99,796
Capital reserve		**93,990**	93,990	**—**	—
Translation reserve (FCTR)		**4,134**	4,052	**—**	—
Retained earnings		**(166,907)**	(161,897)	**(58,554)**	(59,166)
Total equity (all attributable to equity holders of the Company)		**51,013**	55,941	**61,242**	60,630

These financial statements were approved by the Board of Directors on 26 February 2014 and were signed on its behalf by:

Neil Johnson
Director

The notes on pages 71 to 104 are an integral part of these financial statements.

Financial statements

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Capital reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2012	20,000	99,796	93,990	5,527	364	219,677
Total comprehensive income for the year						
Loss for the year	—	—	—	—	(159,825)	(159,825)
Foreign currency translation differences – foreign operations	—	—	—	(536)	—	(536)
Net loss on net investment in foreign operations	—	—	—	(939)	—	(939)
Total other comprehensive income	—	—	—	(1,475)	—	(1,475)
Total comprehensive income for the year	—	—	—	(1,475)	(159,825)	(161,300)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to equity holders	—	—	—	—	(3,368)	(3,368)
Share-based payments (net of tax)	—	—	—	—	932	932
Total contributions by and distributions to owners	—	—	—	—	(2,436)	(2,436)
Balance at 31 December 2012	**20,000**	**99,796**	**93,990**	**4,052**	**(161,897)**	**55,941**

	Share capital £000	Share premium £000	Capital reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2013	20,000	99,796	93,990	4,052	(161,897)	55,941
Total comprehensive income for the year						
Loss for the year	—	—	—	—	(5,797)	(5,797)
Foreign currency translation differences – foreign operations	—	—	—	291	—	291
Net loss on net investment in foreign operations	—	—	—	(209)	—	(209)
Total other comprehensive income	—	—	—	82	—	82
Total comprehensive income for the year	—	—	—	82	(5,797)	(5,715)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share-based payments (net of tax)	—	—	—	—	787	787
Total contributions by and distributions to owners	—	—	—	—	787	787
Balance at 31 December 2013	**20,000**	**99,796**	**93,990**	**4,134**	**(166,907)**	**51,013**

The notes on pages 71 to 104 are an integral part of these financial statements.

Company Statement of Changes in Equity

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2012	20,000	99,796	14,419	134,215
Total comprehensive income for the year				
Loss for the year	—	—	(71,408)	(71,408)
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Dividends to equity holders	—	—	(3,368)	(3,368)
Share-based payments	—	—	1,191	1,191
Balance at 31 December 2012	**20,000**	**99,796**	**(59,166)**	**60,630**

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2013	20,000	99,796	(59,166)	60,630
Total comprehensive income for the year				
Loss for the year	—	—	(254)	(254)
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Share-based payments	—	—	866	866
Balance at 31 December 2013	**20,000**	**99,796**	**(58,554)**	**61,242**

The notes on pages 71 to 104 are an integral part of these financial statements.

Statements of Cash Flows

for the year ended 31 December

	Note	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Cash flows from operating activities					
Loss for the year		**(5,797)**	(159,825)	**(254)**	(71,408)
Adjustments for:					
Depreciation	14	**3,250**	4,390	**—**	—
Amortisation of intangible assets	15	**7,661**	7,049	**—**	—
Impairment losses on property, plant and equipment	14	**125**	3,573	**—**	—
Impairment losses on intangible assets	15	**4,142**	4,443	**—**	—
Impairment losses on goodwill	15	**—**	140,503	**—**	—
Impairment losses on investments	16	**—**	—	**—**	71,341
(Reversal of) impairment losses on trade receivables		**(674)**	3,660	**—**	—
Gain on sale of investment		**—**	(1,710)	**—**	—
Gain on sale of property, plant and equipment		**(9)**	(1)	**—**	—
Net finance expense/(income)	11	**801**	(477)	**252**	64
Income tax credit	12	**(909)**	(5,605)	**—**	—
Share-based payments	26	**876**	1,191	**—**	—
		9,466	(2,809)	**(2)**	(3)
Change in inventories		**6,891**	1,792	**—**	—
Change in trade and other receivables		**4,054**	7,904	**1**	(1)
Change in trade and other payables		**2,537**	(7,709)	**938**	3,270
Change in provisions		**(2,013)**	2,703	**—**	—
Cash generated from operations		**20,935**	1,881	**937**	3,266
Finance cost paid		**(1,058)**	(548)	**—**	—
Income tax received/(paid)		**210**	(702)	**—**	—
Net cash inflow from operating activities		**20,087**	631	**937**	3,266
Cash flows from investing activities					
Finance income received		**48**	79	**—**	—
Proceeds from sale of investment		**—**	1,710	**—**	—
Proceeds from sale of property, plant and equipment		**126**	8	**—**	—
Acquisition of property, plant and equipment	14	**(1,252)**	(3,232)	**—**	—
Development expenditure	15	**(8,072)**	(9,233)	**—**	—
Acquisition of subsidiary – deferred and contingent consideration		**—**	(1,096)	**—**	—
Net cash used in investing activities		**(9,150)**	(11,764)	**—**	—
Cash flows from financing activities					
Transaction costs of new bank facility		**(938)**	—	**(938)**	—
Cash (outflow)/inflow from settlement of derivatives		**(226)**	841	**—**	—
Dividends paid		**—**	(3,368)	**—**	(3,368)
Net cash used in financing activities		**(1,164)**	(2,527)	**(938)**	(3,368)
Net increase/(decrease) in cash and cash equivalents		**9,773**	(13,660)	**(1)**	(102)
Cash and cash equivalents at 1 January		**8,011**	21,802	**9**	111
Exchange rate effects		**(193)**	(131)	**—**	—
Cash and cash equivalents at 31 December	20	**17,591**	8,011	**8**	9

The notes on pages 71 to 104 are an integral part of these financial statements.

Notes

(forming part of the financial statements)

1 Reporting entity

Promethean World Plc ('the Company') is a company registered in England and Wales. The address of the Company's registered office is Promethean House, Lower Philips Road, Whitebirk Industrial Estate, Blackburn, Lancashire BB1 5TH.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities') for the year ended 31 December 2013.

The parent company financial statements present information about the Company as a separate entity and not about its Group. In accordance with Section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account. The amount of the loss for the financial year dealt with in the financial statements of the Company is £254,000 (2012: loss of £71,408,000).

The Group's Promethean brand is a leader in the global market for interactive learning technology. The Group creates, develops, supplies and supports leading-edge, interactive learning technology primarily for the education market. Promethean's solutions include its interactive display systems (ActivBoard, ActivTable and ActivPanel), its learner response systems (ActiVote, ActivExpression and Promethean KUNO tablet) and its specialised teaching software (ActivInspire, ActivEngage and ClassFlow™).

Promethean also provides comprehensive training and support and, now with over 1.8 million members, Promethean Planet (www.PrometheanPlanet.com) is the world's largest online community for users of interactive learning technology, providing user-generated and premium content and is a forum for teachers to exchange ideas and experience.

2 Basis of preparation

(a) Statement of compliance

Both the parent company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs').

The parent company financial statements and the Group financial statements were authorised for issue by the Board of Directors on 26 February 2014.

(b) Basis of measurement

The parent company and Group financial statements have been prepared on the historical cost basis except for all derivative contracts being carried at their fair value.

The methods used to measure fair values are discussed further in note 4.

(c) Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 6 to 28. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in note 27. In addition note 5 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

As at 31 December 2013, the Group Statement of Financial Position shows net assets of £51.0m and net cash of £17.6m.

The Group has entered into a new secured bank facility agreement for up to £25m arranged by Burdale Financial Limited with Wells Fargo Bank. The new asset-based lending facility, which runs to 30 September 2017, replaces Promethean's bank facility with Lloyds Bank plc which was due to mature in March 2015. Neither facility was drawn during the year.

The facility is available to Promethean Limited and Promethean Inc. It is secured by share pledges over the shares of Promethean SAS and Promethean GmbH and by fixed and floating charges over the assets of Promethean World Plc, Promethean Inc., Promethean Limited, Chalkfree Limited and Promethean (Holdings) Limited.

On the basis of the existing banking facilities in place as at 31 December 2013 and management's forecasts, there is sufficient headroom for the Group to operate comfortably for the foreseeable future.

Having made appropriate enquiries, the Directors are satisfied that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they have continued to adopt the going concern basis in preparing the Company and consolidated financial statements.

(d) Functional and presentation currency

These financial statements are presented in Sterling (GBP), which is the Company's functional currency. All financial information presented in GBP has been rounded to the nearest thousand.

Notes continued

(forming part of the financial statements)

2 Basis of preparation continued

(e) Use of estimates and judgements

The preparation of financial statements in conformity with Adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

→ note 15 – valuation of intangible assets;

→ note 18 – valuation of inventories; and

→ note 27 – bad debt provisions.

The accounting policy descriptions set out the areas where judgement needs exercising, the most significant of which are outlined below:

→ Research and development – Determining that development costs can be reliably measured, that the product or process is technically and commercially feasible and that future economic benefits are probable.

→ Valuation of inventories – Determining the net realisable value for items of inventory.

→ Recoverability of trade receivables – Determining the appropriate level of impairment provision.

→ Revenue recognition – Determining when the significant risks and rewards of ownership have been transferred to the buyer and that recovery of the consideration is probable.

→ Exceptional items – Determining whether items are treated as non-trading items due to size and non-recurring nature.

→ Tax – Determining whether a deferred tax asset should be recognised and estimating the expected recovery.

Information on critical judgements made in applying accounting policies, including details of significant methods and assumptions used, is included in notes 15 and 27. The areas where the Group has estimated the fair value of assets and liabilities are outlined in note 4 and the financial risk management policies are detailed in note 5.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Group and Company financial statements and have been applied consistently by Group entities.

(a) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and entities controlled by the Company, all of which are made up to 31 December each year. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Acquisitions are accounted for under the acquisition method. The results of subsidiaries disposed of in the year are included in the Consolidated Statement of Comprehensive Income up to the date of disposal.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3 Significant accounting policies continued

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on a financial asset considered to be part of the net investment in the foreign subsidiary which are recognised directly in equity (see (b)(iii)).

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to GBP at exchange rates at the reporting date. The income and expenses of foreign operations are translated to GBP at average exchange rates which approximate to actual rates for the relative accounting periods.

Foreign currency differences are recognised in other comprehensive income and presented in the foreign currency translation reserve (FCTR) within equity. When a foreign operation is disposed of in full, the cumulative amount in the translation reserve related to the foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the Group would re-attribute the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Group would reclassify to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income.

(iii) Net investment in foreign operation

Foreign exchange gains and losses arising from a monetary item receivable from a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation.

Foreign currency differences arising on the retranslation of a financial asset designated as a net investment in a foreign operation are recognised in other comprehensive income and are presented in the FCTR within equity. When the net investment is disposed of, the relevant amount in the FCTR is transferred to profit or loss as part of the gain or loss on disposal.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and current balances with banks and are held at amortised cost.

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value. When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

(iii) Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised immediately in the Statement of Comprehensive Income.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss in equity is recognised in the Statement of Comprehensive Income immediately. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Notes continued

(forming part of the financial statements)

3 Significant accounting policies continued

(c) Financial instruments continued

(iv) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(d) Business combinations

The Group has applied IFRS 3 (2008) *Business Combinations* for all business combinations occurring on or after 1 January 2010.

Business combinations are accounted for by applying the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain the benefits of its activities.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill as:

→ the fair value of the consideration transferred; plus

→ the recognised amount of any non-controlling interests in the acquiree; plus

→ if the business combination is achieved in stages, the fair value of the existing interest in the acquiree; less

→ the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain would be recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at the fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions prior to 1 January 2010

For acquisitions prior to 1 January 2010, goodwill represents the excess of the cost of acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of acquisition.

(e) Investments

Investments represent equity interests where the Group does not have significant interest or control.

The Group's investment in equity interests is classified as an available-for-sale financial asset. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

The Company's investments represent equity interests in subsidiary undertakings where the Company has significant interest or control. Investments are recognised at cost less impairment losses.

3 Significant accounting policies continued

(f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

→ Freehold buildings 25 years

→ Plant and equipment 3–10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(g) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented within intangible assets.

For measurement of goodwill at initial recognition, see note 3(d).

Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but tested at least annually for impairment.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. The Group does not have any borrowing costs that specifically relate to qualifying assets. All other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangibles include interactive lesson content.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(v) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

→ Internally generated development assets 1–3 years

→ Acquired development assets 5–10 years

→ Acquired customer contracts and relationships 1–6 years

Notes continued

(forming part of the financial statements)

3 Significant accounting policies continued

(h) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's Statement of Financial Position.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and other short-term highly liquid investments with maturities of three months or less.

(k) Impairment (excluding inventories and deferred tax assets)

The carrying amounts of the Group's assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment; a financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

The carrying value of the development assets and their remaining asset lives are reviewed periodically. In the event that projects or product lines have been discontinued then the corresponding development asset will be fully amortised. To the extent that management is aware of a reduction in demand for a particular product line, a review of forecast sales will be used to determine whether the reduction in demand has given rise to an impairment.

The carrying value and remaining asset lives of customer contracts, acquired through business combinations, are reviewed every six months taking into consideration any changes to contract terms in that period and how those changes will impact future cash flows under that contract.

For goodwill, the recoverable amount is estimated at the end of each reporting date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair values less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Significant accounting policies continued

(l) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as a personnel expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

(i) Warranties

A provision for warranties is recognised when underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on associated assets.

(n) Revenue recognition

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

All revenue is reported exclusive of value-added tax and other sales taxes.

Notes continued

(forming part of the financial statements)

3 Significant accounting policies continued

(n) Revenue recognition continued

(ii) Sale of software

The Promethean global software licence provided with the sale of hardware includes only a short-term warranty that guarantees the software will function in accordance with the published specification for 90 days from purchase. The Group has no contractual obligation to provide ongoing support or updates to this software. As a result the Group recognises revenue when the significant risks and rewards of ownership have been transferred to the customer. Other software that the Group provides that are not essential to the functionality of the hardware are sold and accounted for separately. For this software sold stand-alone:

→ Subscription revenue is recognised on a straight-line basis over the term of the subscription contract. Revenue not recognised in the income statement under this policy is classified as deferred income in the Statement of Financial Position.

→ Software licences: the Group recognises the revenue attributable to software licences when all the following conditions have been satisfied:

  → the Group has transferred to the buyer the significant risks and rewards of ownership of the licence;

  → the amount of revenue can be measured reliably;

  → it is probable that the economic benefits associated with the transaction will flow to the Group; and

  → the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Where software is sold with contractual maintenance, the consideration is allocated between the different elements on a relative fair value basis. Revenue in respect of contractual maintenance is recognised on a straight-line basis over the period of the contract as services are provided equally over the course of the contract.

(iii) Maintenance contract sales

Revenue from maintenance contracts, extended warranties and enhanced service sales are recognised on a straight-line basis over the period of the contract as services are provided equally over the course of the contract.

Payments received in advance of services are recorded in the Statement of Financial Position as deferred income and are recognised in the Statement of Comprehensive Income proportionately over the period that the services are provided.

(iv) Training sales

Revenue from sales of training is recognised once the training has been provided.

(o) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(p) Finance income and expenses

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest and commitment fee expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(q) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised in respect of temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

3 Significant accounting policies continued

(q) Income tax continued

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Exceptional items

Exceptional costs and income are those that in management's view need to be disclosed by virtue of their size and non-recurring nature. Such items are included in the income statement under a caption to which they relate and are separately disclosed in the notes to the consolidated financial statements.

(s) Earnings per share

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effect of all dilutive potential ordinary shares, which comprise share options granted to employees.

(t) Segment reporting

The Group's primary format for segment reporting is based on geographical sales destination. The geographical segments are determined based on the Group's management and internal reporting structure. The operating results for each segment are reviewed regularly by the Directors, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(u) New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations issued by the International Accounting Standards Board became effective during the year but have no material effect on the Group's financial statements:

→ Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

→ IFRS 10 *Consolidated Financial Statements*

→ IFRS 11 *Joint Arrangements*

→ IFRS 12 *Disclosure of Interests in Other Entities*

→ IFRS 13 *Fair Value Measurement*

→ Presentation of items of Other Comprehensive Income (Amendments to IAS 1)

→ IAS 19 *Employee Benefits* (2011)

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014 and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(b) Intangible assets

Whilst goodwill is held at cost and development costs are valued at cost less amortisation, their carrying values are assessed to ensure that they do not exceed the lower of net realisable value and value in use at the end of each reporting period.

The fair value of goodwill is based on the discounted cash flows of the cash-generating units or product revenue as outlined in note 15.

The fair values of intangible assets recognised as a result of a business combination are based on market values, as determined by an independent valuation.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of products developed.

Notes continued

(forming part of the financial statements)

4 Determination of fair values continued

(c) Trade and other receivables

The fair value of short-term trade and other receivables is deemed to be its book value less any impairment provision. The effect of discounting is considered to be immaterial.

(d) Derivatives

The fair value of forward exchange contracts and interest rate swaps and caps are based on market valuations.

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5 Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

→ credit risk;

→ liquidity risk; and

→ market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Executive Directors report regularly to the Board of Directors on Group risk management.

Credit risk

Trade receivables are collected by credit control teams based in the US (for North American receivables) and the UK (for International receivables). Both these teams report into the Global Credit Manager who oversees the collection of all trade receivables. Credit limits are set as deemed appropriate for the customer. Sales to distributors and resellers are made based on recommended credit limits and, where suitable cover is available, credit insurance is used. Whilst none of the customers exceeded 10% of revenue, due to the seasonal and tender driven nature of the business there can be occasions where credit risk is concentrated across a small number of customers. Such situations persist only for short periods of time.

Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

As at 31 December 2013, the Group has in place a £25m asset-based lending facility that can be drawn on the day of request; this facility will expire on 30 September 2017. The interest rate is 200 to 250 basis points over 30-day LIBOR. Neither this facility nor Promethean's previous bank facility, with Lloyds Bank plc, were drawn during the year (2012: undrawn).

In addition the Group manages all of its external bank relationships centrally in accordance with defined treasury policies. The policies include the minimum acceptable credit rating of relationship banks and financial transaction authority limits. Any material change to the Group's principal banking facility requires Board approval. The Group seeks to mitigate the risk of bank failure by ensuring that it maintains relationships with a number of investment grade banks.

As at 31 December 2013, the Group was cash positive with no outstanding external loans or borrowings.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return.

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily Sterling (GBP), US Dollars (USD), Euros (EUR) and Chinese Renminbi (CNY). Transactions outside of these currencies are limited.

The Group reviews its net currency exposures for a rolling twelve-month period. The Group purchases the majority of its raw materials in USD which offsets a proportion of USD sales thereby reducing net foreign exchange exposure.

In calculating its net transaction exposure, the Group takes into account its trade receivables and trade payables denominated in a foreign currency. The Group uses forward exchange contracts as an economic hedge against currency risk, where cash flow can be judged with reasonable certainty. Foreign exchange swaps and options may be used to hedge foreign currency receipts in the event that the timing of the receipt is less certain.

5 Financial risk management continued

Market risk continued

Interest rate risk

As at 31 December 2013, the Group was cash positive with no outstanding external loans or borrowings.

Other market price risk

The Group does not enter into commodity contracts other than to purchase raw materials to meet the Group's expected usage requirements.

Capital management

The Board seeks to build a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The Group manages its capital on both a short and long-term basis. In the short term the net cash position is monitored. This includes cash, cash equivalents, short-term deposits and debt. In the long term the Group monitors shareholders' funds plus debt. This information is provided to key management personnel and is consistent between the current and prior year.

The Group currently has a positive net cash position of £17.6m (2012: £8.0m) and continues to carry no debt; therefore, the long-term capital employed is equivalent to the shareholders' funds as at 31 December 2013 of £51.0m (2012: £55.9m).

The Board has actively protected its capital by not paying an interim or final dividend, during both 2012 and 2013, to strengthen cash flows in response to both the prevailing conditions in many key markets and by reducing its operating cost base.

As outlined in note 26 and the Directors' Remuneration Report, the Group has share incentive schemes to further align executive management's interests with those of the ordinary shareholders.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6 Operating segments

The Group is comprised of two reportable segments based on the destination of sales (North America and International) and they do not arise as a result of an aggregation process. Each segment offers similar products but are managed separately on a geographical basis. The Group has not disclosed separate information about emerging revenue streams referred to in the Strategic report on page 8 as they do not meet the quantitative or qualitative criteria set out in IFRS 8 *Operating Segments*. The Board is the Chief Operating Decision Maker (CODM) and reviews internal management reports on these segments on a monthly basis. Performance by segment is managed and reviewed to gross profit. For internal reporting purposes, aside from trade receivables, no allocation is made between these segments for balances in the statement of financial position, as, regardless of an asset's geographical location, it could serve each business segment. Disclosures for segment performance are provided in the tables below and overleaf:

2013 Group	**North America £000**	**International £000**	**Total Group £000**
Revenue	**69,094**	**72,064**	**141,158**
Reportable segmental profit (gross profit)	**27,659**	**22,927**	**50,586**
Reportable segmental assets (trade receivables)	**5,848**	**13,318**	**19,166**

2012 Group	North America £000	International £000	Total Group £000
Revenue	82,789	74,212	157,001
Reportable segmental profit (gross profit)	32,802	24,836	57,638
Reportable segmental assets (trade receivables)	8,879	14,532	23,411

Inter-segment trading

Inter-segment trading and profitability is not included in the information provided to the CODM and consequently has not been disclosed above. Revenue for each reportable segment reflects sales to external customers only. Reported segmental profits are adjusted for inter-segment profits and as such are stated using the costs to the Group rather than for each segment.

Notes continued

(forming part of the financial statements)

6 Operating segments continued

Reconciliation to loss before income tax

Group	2013 £000	2012 £000
Reportable segmental profit (gross profit)	**50,586**	57,638
Sales and marketing expenses	**(28,326)**	(37,076)
Administrative expenses	**(7,836)**	(9,253)
Research and development (net)	**(5,017)**	(6,207)
Adjusted EBITDA	**9,407**	5,102
Depreciation	**(3,250)**	(4,390)
Amortisation	**(6,879)**	(6,248)
Adjusted operating loss	**(722)**	(5,536)
Amortisation of acquired intangibles	**(782)**	(801)
Goodwill impairment – exceptional cost	**—**	(140,503)
Other exceptional costs	**(4,267)**	(19,586)
Exceptional income	**742**	1,710
Share-based payments	**(876)**	(1,191)
Net finance (expense)/income	**(801)**	477
Loss before income tax	**(6,706)**	(165,430)

Reconciliation to total assets per statement of financial position

Group	2013 £000	2012 £000
Total assets for reportable segments	**19,166**	23,411
Unallocated amounts:		
All current assets excluding trade receivables	**32,697**	28,505
All non-current assets	**30,286**	35,000
Consolidated total assets	**82,149**	86,916

The only assets that the Group separately identifies by its segments are trade receivables. All other categories of asset and liability could serve each business segment and so are not allocated to a segment for the purposes of internal or statutory reporting.

Revenue by product

Group	2013 £000	2012 £000
Interactive display systems and accessories	**132,072**	139,220
Learner response systems and assessment	**9,086**	17,781
	141,158	157,001

Interactive display systems and accessories revenue by segment

Group	2013 £000	2012 £000
North America	**63,067**	68,593
International	**69,005**	70,627
	132,072	139,220

Learner response systems and assessment revenue by segment

Group	2013 £000	2012 £000
North America	**6,027**	14,196
International	**3,059**	3,585
	9,086	17,781

6 Operating segments continued

Revenue by country

	2013 £000	2012 £000
United States	**65,533**	79,527
United Kingdom (Company's country of domicile)	**12,651**	15,658
Germany	**6,824**	4,364
France	**5,793**	5,305
Russia	**5,574**	14,333
Canada	**3,466**	2,970
China	**2,928**	2,018
Netherlands	**2,866**	3,024
Denmark	**2,682**	2,380
Vietnam	**2,441**	357
Other countries	**30,400**	27,065
	141,158	157,001

Major customers

For 2013 there was no customer (2012: no customer) who individually represented in excess of 10% of Group revenues for the year.

Geographical locations

The analysis of non-current assets excluding derivatives and deferred tax, by geographical location, is identified below:

Non-current assets

Group	2013 £000	2012 £000
United Kingdom	**18,447**	21,925
France	**22**	27
Germany	**3**	—
United States	**1,499**	3,443
China	**1,989**	2,504
	21,960	27,899

7 Revenue

Continuing operations

	2013 £000	2012 £000
Sales of goods	**138,525**	154,783
Services	**2,633**	2,218
	141,158	157,001

Services include maintenance and training.

8 Exceptional items

Exceptional costs

	2013 £000	2012 £000
Goodwill impairment	**—**	140,503
Reorganisation costs	**4,267**	16,486
Impairment of trade receivables	**—**	3,100
Other exceptional costs	**4,267**	19,586
	4,267	160,089

Notes continued

(forming part of the financial statements)

8 Exceptional items continued

Exceptional income

	2013 £000	2012 £000
Reversal of trade receivable impairment	**674**	—
Profit on disposal of tangible fixed assets	**68**	—
Proceeds from sale of investment in FlatFrog Laboratories AB	**—**	1,710
	742	1,710

Reorganisation costs

These costs comprise impairment of intangible fixed assets of £4.1m and tangible fixed assets of £0.1m, which represents the culmination of the software strategy rationalisation review that commenced in Q4 2012, which was categorised as exceptional reorganisation costs in both the current and prior year.

Impairment of trade receivables

The impairment loss recognised in 2012 related to one specific reseller. Due to the material nature of the loss by virtue of size and that no material trade receivables have been impaired in previous financial years, management has treated this as an exceptional cost. At December 2013, management has reviewed the provision and concluded that a partial reversal of the impairment was appropriate.

Profit on disposal of tangible fixed assets

This represents the sale proceeds of an asset that was impaired to £nil in 2012 as part of the restructuring activities of the Group's Australia operations. The treatment of the sale proceeds is considered exceptional to be consistent with the prior year treatment of the impairment.

Tax effect of exceptional items

The deferred tax credit resulting from current year exceptional items is £1,015,000. This amount is included in the Group's income tax credit for the year.

9 Expenses and auditor's remuneration

Included in the loss for the year are the following:

Group	2013 £000	2012 £000
(Reversal of) impairment loss on trade receivables	**(674)**	3,660
Impairment loss on goodwill	**—**	140,503
Reorganisation costs included in operating expenses	**4,267**	16,486
Research and development expensed as incurred	**5,017**	6,207
Auditor's remuneration:		
Audit of these financial statements	**5**	5
Amounts receivable by auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**178**	178
Total audit fees	**183**	183
Other services relating to taxation	**26**	53
All other services	**3**	20
Total auditor's remuneration	**212**	256

Operating expenses are analysed as follows:

Group	2013 £000	2012 £000
Sales and marketing	**28,326**	37,076
Administrative	**7,836**	9,253
Total research and development expenditure	**13,089**	14,550
Less: capitalised development expenditure	**(8,072)**	(8,343)
Research and development (net)	**5,017**	6,207
Depreciation	**3,250**	4,390
Amortisation	**6,879**	6,248
Amortisation of acquired intangible assets	**782**	801
Goodwill impairment – exceptional cost	**—**	140,503
Other exceptional costs	**4,267**	19,586
Exceptional income	**(742)**	(1,710)
Share-based payments	**876**	1,191
	56,491	223,545

10 Personnel expenses

Group	2013 £000	2012 £000
Wages and salaries	**33,337**	35,232
Social security contributions	**3,319**	3,538
Contributions to defined contribution plans	**985**	1,233
Share-based payments	**876**	1,191
	38,517	41,194

Payments to Directors made in respect of qualifying services are as follows:

	2013 £000	2012 £000
Remuneration	**1,202**	1,096
Amounts received under long term incentive schemes	**106**	185
Contributions to defined contribution plans	**40**	86
	1,348	1,367

Pension contributions were made on behalf of two Directors (2012: three), into defined contribution schemes.

The average number of persons employed by the Group during the year was:

	2013	2012
Production	**109**	147
Research and development	**111**	158
Selling and distribution	**348**	420
Administration	**118**	143
	686	868

11 Finance income and expense

Amounts recognised in profit or loss

Group	2013 £000	2012 £000
Interest income on bank deposits	**48**	79
Net change in fair value of financial assets at fair value through profit or loss	**144**	—
Foreign exchange gains	**—**	912
Finance income	**192**	991
Interest and commitment fee expense on bank and other loans	**(208)**	(196)
Debt issue costs amortised	**(252)**	(64)
Foreign exchange losses	**(533)**	—
Net change in fair value of financial assets at fair value through profit or loss	**—**	(254)
Finance expense	**(993)**	(514)
Net finance (expense)/income recognised in profit or loss	**(801)**	477
The above financial income and expense includes the following in respect of assets/(liabilities) not at fair value through profit or loss:		
Total interest income on financial assets	**48**	79
Total interest expense on financial liabilities	**(460)**	(260)

Amounts recognised in other comprehensive income

Group	2013 £000	2012 £000
Foreign currency translation differences – foreign operations	**291**	(536)
Net loss on net investments in foreign operations	**(209)**	(939)
	82	(1,475)

	2013 £000	2012 £000
Recognised in:		
Translation reserve (FCTR)	**82**	(1,475)
	82	(1,475)

Notes continued

(forming part of the financial statements)

12 Taxation

Amounts recognised in profit or loss

Group	2013 £000	2012 £000
Current tax expense		
Current period	**1,112**	2,426
Adjustment for prior periods	**(717)**	(1,066)
Current tax expense	**395**	1,360
Deferred tax expense		
Origination and reversal of temporary differences	**(2,075)**	(7,252)
Reduction in tax rates	**626**	(173)
Adjustments for prior periods	**145**	460
Deferred tax credit	**(1,304)**	(6,965)
Total tax credit	**(909)**	(5,605)

Amounts recognised directly in equity

Group	2013 £000	2012 £000
Share-based payments	**79**	265
	79	265

Reconciliation of effective tax rate

Group	2013 Rate	2013 £000	2012 Rate	2012 £000
Loss excluding income tax		**(6,706)**		(165,430)
Income tax credit using the Company's domestic tax rate	**23.3%**	**(1,560)**	24.5%	(40,530)
Effect of tax rates in foreign jurisdictions	**(6.5%)**	**434**	(0.2%)	274
Reduction in tax rate	**(15.3%)**	**1,025**	(0.2%)	266
Non-deductible expenses	**(5.1%)**	**344**	(21.2%)	35,024
Non-taxable income	**0.0%**	**—**	0.3%	(419)
Tax incentives	**1.7%**	**(113)**	0.5%	(824)
Change in unrecognised temporary differences	**6.0%**	**(404)**	(0.7%)	1,210
Utilisation of tax losses not previously recognised	**1.0%**	**(63)**	0.0%	—
Over provided in prior periods	**8.5%**	**(572)**	0.4%	(606)
Total income tax credit	**13.6%**	**(909)**	3.4%	(5,605)

Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013.

This will reduce the Company's future current tax charge accordingly. The deferred tax asset at balance sheet date has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

Movement in recognised deferred tax balances

Group	Balance at 1 January 2012 £000	Recognised in profit or loss £000	Recognised directly in equity £000	Balance at 31 December 2012 £000	Recognised in profit or loss £000	Recognised directly in equity £000	**Balance at 31 December 2013 £000**
Property, plant and equipment	(168)	1,580	—	1,412	190	—	**1,602**
Intangible assets	(3,380)	33	—	(3,347)	2,060	—	**(1,287)**
Financial assets at fair value through profit or loss	(69)	64	—	(5)	(28)	—	**(33)**
Inventories	2,260	(67)	—	2,193	(1,448)	—	**745**
Lease rentals	68	(23)	—	45	9	—	**54**
Other items	1,003	515	(265)	1,253	112	(79)	**1,286**
Tax loss carry forwards	687	4,863	—	5,550	409	—	**5,959**
	401	6,965	(265)	7,101	1,304	(79)	**8,326**

12 Taxation continued

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	**2013 £000**	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Property, plant and equipment	**2,070**	1,966	**(468)**	(554)	**1,602**	1,412
Intangible assets	**—**	—	**(1,287)**	(3,347)	**(1,287)**	(3,347)
Financial assets at fair value through profit or loss	**—**	—	**(33)**	(5)	**(33)**	(5)
Inventories	**745**	2,193	**—**	—	**745**	2,193
Lease rentals	**54**	45	**—**	—	**54**	45
Other items	**1,552**	1,386	**(266)**	(133)	**1,286**	1,253
Tax loss carry forwards	**5,959**	5,550	**—**	—	**5,959**	5,550
Tax assets/(liabilities)	**10,380**	11,140	**(2,054)**	(4,039)	**8,326**	7,101
Set off of tax	**(2,054)**	(4,039)	**2,054**	4,039	**—**	—
Net tax assets	**8,326**	7,101	**—**	—	**8,326**	7,101

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following deductible temporary differences and unused tax losses (stated gross):

Group	**2013 £000**	2012 £000
Tax losses	**4,376**	6,225
Deductible temporary differences	**743**	758
	5,119	6,983

The Group has recognised deferred tax assets in respect of tax losses as, following a review of internal forecasts, management expects to utilise these losses in the foreseeable future. In making its assessment of the recoverability of deferred tax assets, management has considered the timing of future loss utilisation and the fact that current year losses are attributable in part to the conclusion of reorganisation activities which commenced in the prior year.

The unrecognised deferred tax in respect of tax losses primarily relates to the Group's foreign subsidiaries.

Neither the remaining tax losses nor the deductible temporary differences expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

At 31 December 2013 a deferred tax liability for temporary differences of £21,458,000 (2012: £19,918,000) relating to an investment in a subsidiary was not recognised (2012: £nil) because the Company controls whether the liability will be incurred and is satisfied that it will not be incurred in the foreseeable future.

The Group has no other unrecognised deferred tax assets or liabilities.

The Company has no unrecognised deferred tax assets or liabilities.

13 Dividends per ordinary share

The Directors did not pay an interim dividend (2012: £nil).

The Directors do not propose a final dividend (2012: £nil) in respect of the year ended 31 December 2013. The total dividend for the year was therefore £nil (2012: £nil).

Notes continued

(forming part of the financial statements)

14 Property, plant and equipment

Group	Freehold land and buildings £000	Plant and equipment £000	Total £000
Cost			
Balance at 1 January 2012	4,422	21,975	26,397
Additions	91	3,141	3,232
Disposals	(228)	(861)	(1,089)
Effect of movements in exchange rates	(137)	(214)	(351)
Balance at 31 December 2012	4,148	24,041	28,189
Additions	50	1,202	1,252
Disposals	—	(989)	(989)
Effect of movements in exchange rates	(19)	5	(14)
Balance at 31 December 2013	**4,179**	**24,259**	**28,438**
Depreciation and impairment losses			
Balance at 1 January 2012	1,423	10,097	11,520
Depreciation for the year	306	4,084	4,390
Impairment loss	523	3,050	3,573
Disposals	(228)	(854)	(1,082)
Effect of movements in exchange rates	(10)	(146)	(156)
Balance at 31 December 2012	2,014	16,231	18,245
Depreciation for the year	234	3,016	3,250
Impairment loss	—	125	125
Disposals	—	(872)	(872)
Effect of movements in exchange rates	(12)	(39)	(51)
Balance at 31 December 2013	**2,236**	**18,461**	**20,697**
Carrying amounts			
At 1 January 2012	2,999	11,878	14,877
At 31 December 2012	2,134	7,810	9,944
At 31 December 2013	**1,943**	**5,798**	**7,741**

The Company had no property, plant and equipment as at either 31 December 2013 or 31 December 2012.

Impairment

The impairment loss recognised is part of the reorganisation costs disclosed in note 8.

Security

Assets with a value of £5.8m form part of the security against the new bank facility as described in note 2(c).

15 Intangible assets

Group	Goodwill £000	Development costs £000	Customer contracts £000	Total £000
Cost				
Balance at 1 January 2012	140,546	29,042	194	169,782
Additions arising from internal development	—	8,343	—	8,343
External additions	—	890	—	890
Effect of movements in exchange rates	(43)	(109)	(8)	(160)
Fully amortised assets	—	(228)	—	(228)
Balance at 31 December 2012	140,503	37,938	186	178,627
Additions arising from internal development	—	8,072	—	8,072
Effect of movements in exchange rates	—	(45)	(4)	(49)
Fully amortised assets	—	(2,817)	—	(2,817)
Balance at 31 December 2013	**140,503**	**43,148**	**182**	**183,833**
Amortisation and impairment losses				
Balance at 1 January 2012	—	8,851	92	8,943
Impairment loss	140,503	4,443	—	144,946
Amortisation	—	6,986	63	7,049
Effect of movements in exchange rates	—	(32)	(6)	(38)
Fully amortised assets	—	(228)	—	(228)
Balance at 31 December 2012	140,503	20,020	149	160,672
Impairment loss	—	4,142	—	4,142
Amortisation	—	7,624	37	7,661
Effect of movements in exchange rates	—	(40)	(4)	(44)
Fully amortised assets	—	(2,817)	—	(2,817)
Balance at 31 December 2013	**140,503**	**28,929**	**182**	**169,614**
Carrying amounts				
At 1 January 2012	140,546	20,191	102	160,839
At 31 December 2012	—	17,918	37	17,955
At 31 December 2013	**—**	**14,219**	**—**	**14,219**

Goodwill impairment in 2012

As at 30 June 2012, following the deterioration in sales in the US market during the first half of 2012, continuing austerity measures heightening education budgetary pressures and a lack of short-term visibility in the education markets in the US and Europe, an impairment test was performed.

The cash flow projections for the 18-month period from 30 June 2012 were based on forecasts produced in the light of the market conditions outlined above. Revenue growth assumptions for the remainder of the five-year period were based on the Group's five-year plan forecasts, which take into account the Group's historical experience in the context of wider industry and economic conditions and information obtained from external industry sources. Further detail can be found in the 2012 Annual Report.

The value in use analysis carried out at 30 June 2012 indicated that goodwill was fully impaired to the value of £140,503,000.

The value in use analysis carried out at 31 December 2012 indicated that there was no further impairment in relation to the valuation of net assets at that date, having recognised the £140,503,000 goodwill impairment as at 30 June 2012.

Recoverability of development costs

Development costs are assessed for recoverability throughout the product lifecycle. This assessment involves consideration of ongoing commercial viability and forecast future cash flows. Future cash flows are discounted using an appropriate discount rate.

Other intangible asset impairments

The impairment loss recognised is part of the reorganisation costs disclosed in note 8. The impairment relates to centrally held assets that are not specifically allocated to a business segment (see note 6).

Notes continued

(forming part of the financial statements)

16 Investments

The Company has the following interests in subsidiary undertakings:

Company	2013 £000	2012 £000
At 1 January	**19,941**	90,091
Additions in respect of share-based payments	**866**	1,191
Impairment charge recognised in the year	**—**	(71,341)
Net book value at 31 December	**20,807**	19,941

The undertakings in which the Company's interest at the period end is more than 20% are listed in note 31.

17 Derivative financial assets

Group	2013 £000	2012 £000
Current assets		
Financial assets designated at fair value through profit and loss	**163**	74
	163	74

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 27.

The Company had no derivative financial assets as at either 31 December 2013 or 31 December 2012.

18 Inventories

Group	2013 £000	2012 £000
Raw materials and consumables	**348**	429
Work in progress	**85**	98
Finished goods	**8,237**	14,873
	8,670	15,400

Inventories recognised as an expense during the year and included in cost of sales amounted to £75,204,000 (2012: £78,125,000).

An inventory provision is created against items where management believe that the carrying value exceeds its recoverable amount.

The finished goods inventory provision is calculated for each product with reference to the number of inventory days held. In addition management conducts a further detailed review to ensure reasonableness (for example, to take into account recently introduced products and changes in product offering).

Inventory provision at 31 December 2013 was £1,892,000 (2012: £2,854,000).

Inventory provision of £338,000 was reversed in the year (2012: charge of £422,000) and £624,000 was utilised.

The Company does not hold any inventory.

19 Trade and other receivables

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Trade receivables	**19,166**	23,411	**—**	—
Other receivables	**2,934**	1,934	**—**	—
Prepayments	**2,501**	2,043	**828**	142
Amounts due from Group entities	**—**	—	**55,760**	55,761
	24,601	27,388	**56,588**	55,903
Non-current	**—**	—	**—**	—
Current	**24,601**	27,388	**56,588**	55,903
	24,601	27,388	**56,588**	55,903

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 27.

20 Cash and cash equivalents

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Bank balances	**17,591**	8,011	**8**	9
	17,591	8,011	**8**	9

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 27.

21 Capital and reserves

Share capital

	Ordinary shares 2013	Ordinary shares 2012
In thousands of shares		
Share capital allotted and in issue at 1 January and 31 December	**200,000**	200,000

Kleinwort Benson (Jersey) Trustees Limited as trustees of the Chalkfree Employee Benefit Trust (EBT) hold shares on trust for the Company which are primarily issued to employees to satisfy the Company's obligations in relation to its share schemes. These shares are categorised as Treasury Shares and are excluded from the calculation of Earnings Per Share (see note 22). At 31 December 2013 the EBT held 342,245 shares in the Company (2012: 943,033 shares). During the year no shares were purchased by the EBT (2012: nil).

During the year, no shares (2012: nil) were repurchased and subsequently cancelled.

Share incentive schemes

Details of share incentive schemes in existence at 31 December 2013 are disclosed in note 26.

Capital reserve

The capital reserve arose as a result of the Group reorganisation in 2010, where Promethean World Plc acquired the entire ordinary share capital of Chalkfree Limited by share for share exchange.

Translation reserve (FCTR)

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of assets relating to the Company's net investment in foreign subsidiaries.

22 Earnings per share

Basic earnings per share

The calculation of basic earnings per share is based on the (loss)/profit attributable to ordinary shareholders as disclosed below and a weighted average number of ordinary shares outstanding, calculated as follows:

Loss attributable to ordinary shareholders

	2013 £000	2012 £000
Loss for the year attributable to ordinary shareholders	**(5,797)**	(159,825)

Weighted average number of ordinary shares

	2013	2012
In thousands of shares		
Issued ordinary shares at 1 January	**200,000**	200,000
Effect of treasury shares held	**(496)**	(1,510)
Effect of dilutive vested share options not yet exercised	**1,103**	1,049
Weighted average number of ordinary shares at 31 December	**200,607**	199,539
Basic loss per share (pence)	**(2.89)**	(80.10)

Notes continued

(forming part of the financial statements)

22 Earnings per share continued

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2013 was based on (loss)/profit attributable to ordinary shareholders as disclosed below and a weighted average number of ordinary shares outstanding calculated as follows:

Group	2013 £000	2012 £000
Loss attributable to ordinary shareholders (basic and diluted)	**(5,797)**	(159,825)

Weighted average number of shares

	2013	2012
In thousands of shares		
Weighted average number of shares (basic)	**200,607**	199,539
Effect of conversion of Promethean World Plc share options	**—**	—
Weighted average number of shares (diluted)	**200,607**	199,539
Diluted loss per share (pence)	**(2.89)**	(80.10)

Details of share options granted during the period can be found in note 26.

No adjustment has been made in both 2013 and 2012 to the weighted average number of shares for the purpose of the diluted earnings per share calculation as the effect would be anti-dilutive.

At 31 December 2013, 3,992,000 share options were excluded from the diluted weighted average number of ordinary shares as their effect would have been anti-dilutive.

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

23 Trade and other payables

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Current				
Trade payables	**9,847**	8,849	**—**	—
Accrued expenses	**9,292**	8,457	**—**	—
Deferred revenue	**6,798**	6,176	**—**	—
Other payables due to Group companies	**—**	—	**16,161**	15,223
	25,937	23,482	**16,161**	15,223

24 Provisions

Group	As at 1 January 2013 £000	Created in the year £000	Utilised in the year £000	As at 31 December 2013 £000	Current £000	Non-current £000
Warranty	2,891	1,887	(1,851)	**2,927**	2,927	—
Reorganisation provisions						
Restructuring	1,745	—	(1,567)	**178**	178	—
Onerous lease	1,797	—	(482)	**1,315**	630	685
Provisions	6,433	1,887	(3,900)	**4,420**	3,735	685

Warranty

The warranty provision is calculated by estimating the possible failure rates of the Group's hardware, with the exception of projectors which are covered by a third party warranty. The length of warranty period varies dependent on both the product and country it is sold to; this period can vary between one and five years.

The timing and frequency of product failures are inherently uncertain and for this reason the warranty provision has been disclosed as current.

24 Provisions continued

Restructuring

The Group has previously incurred reorganisation costs to restructure the business to significantly reduce its operating cost base.

Onerous lease

The onerous lease provision arises from the exit of certain of the Group's premises in previous years.

Approximate outflows from the remaining onerous leases are £0.6m in 2014, £0.5m in 2015 and £0.2m in 2016.

25 Employee benefits

The Group contributes to a number of defined contribution pension schemes providing benefits based upon the contributions made. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension charge for the year represents contributions payable by the Group to the schemes and amounted to £985,000 (2012: £1,233,000). There were no outstanding or prepaid contributions at either the beginning or end of each financial year.

26 Share-based payments

Description of share schemes

The Group has in place the following Long Term Incentive Plans (LTIPs):

Share option schemes:

→ Chalkfree Limited Unapproved Company Share Option Plan (Chalkfree CSOP);

→ IPO Option Plan (IPO Plan);

→ Promethean Company Share Option Plan 2010 (PRW CSOP); and

→ Promethean Performance Share Plan 2011 (PSP).

Share award scheme:

→ Performance Share Awards (PSA).

A summary of each of these LTIP schemes is provided below. Only the PRW CSOP and the PSP are now available for the grant of further awards to employees. The remaining arrangements relate to either pre-IPO awards or, in the case of the IPO Plan, awards made in connection with the IPO, and no further awards will be made under these arrangements.

Share option schemes

Chalkfree Limited Unapproved Company Share Option Plan (Chalkfree CSOP)

The vesting conditions of the 2009 Chalkfree CSOP options are consistent with the 2009 PSA, as described on page 97.
In connection with the restructuring review carried out in 2012 and consistent with the approach for the 2010 PSA (see page 97), the vesting conditions of the 2010 Chalkfree CSOP options were waived and therefore these options will now vest, subject to continuing employment until 30 April 2014. Unvested options lapse ten years from the date of grant and will only become exercisable on a change of control (subject to continuing employment).

IPO Option Plan (IPO Plan)

The IPO Plan provided for a one-off grant, to eligible employees, of options to acquire shares in the Company at a nil exercise price. IPO options are now fully vested and remain exercisable for up to five years from the date of admission (subject to continuing employment) and will then lapse.

The Promethean Company Share Option Plan 2010 (PRW CSOP)

The PRW CSOP provides for the grant, to eligible employees, of options to acquire shares in the Company at an exercise price which may not be less than the market value of a share on the date of grant (or economically equivalent rights in jurisdictions in which for legal, regulatory or tax reasons this is more appropriate). All employees (including Executive Directors) of the Group are eligible to participate in the PRW CSOP at the discretion of the Remuneration Committee. More details of the PRW CSOP are included in the Directors' Remuneration Report on page 45.

Notes continued

(forming part of the financial statements)

26 Share-based payments continued

Share option schemes continued

The Promethean Performance Share Plan 2011 (PSP)

The PSP provides for the grant, to eligible employees, of options to acquire shares in Promethean World Plc normally at a nil or nominal exercise price (or economically equivalent rights in jurisdictions in which for legal, regulatory or tax reasons this is more appropriate). All employees (including Executive Directors) of the Group are eligible to participate in the PSP at the discretion of the Remuneration Committee. More details of the PSP are included in the Directors' Remuneration Report on page 44.

Description of share-based payments

On 26 March 2013 2,100,000 nil cost options and 60,000 phantom share awards were granted under the Promethean Performance Share Plan (PSP). Also on 26 March 2013, 90,000 share options were granted under the Promethean Company Share Option Plan (CSOP) with an exercise price of 16.25p per share.

On 28 June 2013 290,000 nil cost options were granted under the PSP. Also on 28 June 2013, 180,000 share options were granted under the CSOP with an exercise price of 12.875p per share.

As at 31 December 2013, the number of unexercised options were as follows:

Grant date[1]	Employees entitled	Number of instruments (000s)	Contractual life of options[2]
7 August 2009 (2009 Chalkfree CSOP)	Key employees	364	10 years
7 August 2009 (2010 Chalkfree CSOP)	Key employees	479	10 years
24 November 2009 (2009 Chalkfree CSOP)	Key employees	—	10 years
24 November 2009 (2010 Chalkfree CSOP)	Key employees	44	10 years
14 April 2010 (IPO Plan)	Staff[3]	89	5 years
30 September 2010 (PRW CSOP)	Key employees	43	10 years
29 July 2011 (PSP)	Key employees[4,5]	1,903	10 years
29 July 2011 (PRW CSOP)	Key employees[4,5]	1,692	10 years
26 March 2012 (PSP) deferred bonus awards	SMT[6]	39	10 years
30 April 2012 (PSP)	Key employees[4,5]	1,852	10 years
30 April 2012 (PRW CSOP)	Key employees	120	10 years
31 October 2012 (PSP)	Key employees[4,5]	1,570	10 years
31 October 2012 (PRW CSOP)	Key employees	220	10 years
19 December 2012 (PRW CSOP)	Key employees	—	10 years
26 March 2013 (PSP)	Key employees[4,5]	2,040	10 years
26 March 2013 (PRW CSOP)	Key employees	90	10 years
28 June 2013 (PSP)	Key employees[4]	290	10 years
28 June 2013 (PRW CSOP)	Key employees	180	10 years
		11,015	

1. The grant dates listed are the execution dates that the terms of the grants were communicated to employees.
2. In the case of the IPO Plan the expiry date is five years from the date of the Company's admission to the London Stock Exchange. The options may lapse in the event of an employee leaving the business.
3. Employees, subject to service conditions, not included in other share incentive schemes at IPO.
4. A shorter contractual period applies to certain awards held by US participants, due to local tax implications.
5. Including Executive Directors as disclosed in the Directors' Remuneration Report.
6. Certain members of the SMT in respect of partial 2011 bonus deferral.

26 Share-based payments continued

Terms and conditions of the share option programme

The terms and conditions of the Chalkfree CSOP options and IPO Plan options are disclosed on page 93.

The PSP options granted in 2011, 2012 and 2013 to Jim Marshall, Neil Johnson and other SMT members are subject to performance conditions, as set out in more detail in the Directors' Remuneration Report, in respect of awards held by Executive Directors. The awards will not typically be capable of vesting before the third anniversary of the date of grant. In respect of PSP options granted in 2011 to SMT members, but not those held by Executive Directors, as part of the restructuring review and in order to maintain the incentive effect of these awards, the performance targets have been waived such that vesting of these are subject to continuing employment only.

Deferred bonus awards were made under the PSP to certain members of the SMT in 2012. These are not subject to performance conditions and vest on a time basis over two years from the date of grant. Additional PSP options granted to other employees are not subject to performance conditions and vest on a time basis over three years from the date of grant.

The PRW CSOP share options granted to Jim Marshall, Neil Johnson and other SMT members in 2011 will vest subject to the conditions set out in detail in the Directors' Remuneration Report. The PRW CSOP options granted to other employees were granted as new joiner awards and will vest on the third anniversary of the date of grant, subject only to continuing employment.

Inputs for measurement of grant date fair values

The grant date fair values of the share options are measured based on the Black-Scholes model. The expected volatility has been calculated based on the median of the Company's comparator group's historical share price volatility over a period broadly comparable with the expected life of options.

The inputs used in measuring the fair value of the share option grants in 2013 were as follows:

	PSP (granted 26.03.13)	**PRW CSOP (granted 26.03.13)**	**PSP (granted 28.06.13)**	**PRW CSOP (granted 28.06.13)**
Fair value at grant date (pence)	**16.00**	**9.10**	**13.00**	**7.60**
Share price at grant date (pence)	**16.00**	**16.00**	**13.00**	**13.00**
Exercise price (pence)	**nil**	**16.25**	**nil**	**13.00**
Expected volatility	**60%**	**60%**	**60%**	**60%**
Option life (expected)	**3.0 years**	**6.5 years**	**3.0 years**	**6.5 years**
Dividend yield	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Risk-free interest rate	**—**	**1.16%**	**—**	**1.83%**

The inputs used in measuring the fair value of the share option grants in 2012 were as follows:

	PSP (granted 26.03.12)	PSP (granted 30.04.12)	PSP (granted 30.04.12)	PRW CSOP (granted 30.04.12)	PSP (granted 31.10.12)	PRW CSOP (granted 31.10.12)	PRW CSOP (granted 19.12.12)
Fair value at grant date (pence)	74.25	47.20	45.00	17.10	13.00	3.60	3.20
Share price at grant date (pence)	74.25	52.00	52.00	52.00	17.37	17.37	15.00
Exercise price (pence)	nil	nil	nil	51.625	nil	17.37	15.25
Expected volatility	53%	53%	53%	53%	56%	56%	56%
Option life (expected)	2.0 years	3.0 years	3.0 years	6.5 years	3.0 years	6.5 years	6.5 years
Dividend yield	4.80%	4.80%	4.80%	4.80%	9.78%	9.78%	9.78%
Risk-free interest rate	—	—	—	1.50%	—	1.15%	1.15%

Income statement charge

The share-based payment charge for the year was £876,000 (2012: £1,191,000) comprising £866,000 (2012: £1,177,000) in respect of share options, a charge of £10,000 (2012: credit of £6,000) in respect of share appreciation rights to overseas employees where share option schemes are not practical and £nil in respect of restricted share awards (2012: £20,000).

Notes continued

(forming part of the financial statements)

26 Share-based payments continued

Disclosure of movements in share options

The number and weighted average exercise prices of share options for the current and prior year are as follows:

	Options in issue as at 1 January 2013 (000s)	Granted in the year (000s)	Exercised/ lapsed in the year (000s)	**Options in issue as at 31 December 2013 (000s)**	Option price per share (pence)	Weighted average share price at date of exercise (pence)	Weighted average contractual life remaining (years)
2009 Chalkfree CSOP	506	—	(142)	**364**	5.25	27.1	4.2
2010 Chalkfree CSOP	769	—	(246)	**523**	5.25	27.1	4.8
IPO Plan	119	—	(30)	**89**	—	21.0	1.2
PRW CSOP – 2010 grant	43	—	—	**43**	125.00	n/a	6.8
PSP – 2011 grant	2,580	—	(677)	**1,903**	—	15.8	7.2
PRW CSOP – 2011 grant	1,692	—	—	**1,692**	59.75	n/a	7.6
PSP – 2012 deferred SMT bonus	48	—	(9)	**39**	—	n/a	7.4
PSP – April 2012 grant	2,116	—	(264)	**1,852**	—	17.3	8.3
PSP – October 2012 grant	1,570	—	—	**1,570**	—	n/a	8.8
PRW CSOP – April 2012	200	—	(80)	**120**	51.63	n/a	8.3
PRW CSOP – October 2012	335	—	(115)	**220**	17.37	n/a	8.8
PRW CSOP – December 2012	50	—	(50)	**—**	15.25	n/a	8.9
PSP – March 2013 grant	—	2,100	(60)	**2,040**	—	n/a	9.3
PSP – June 2013 grant	—	290	—	**290**	—	n/a	9.5
PRW CSOP – March 2013	—	90	—	**90**	16.25	n/a	9.3
PRW CSOP – June 2013	—	180	—	**180**	12.88	n/a	9.5
Total options	10,028	2,660	(1,673)	**11,015**	n/a	n/a	7.8

	Options in issue as at 1 January 2012 (000s)	Granted in the year (000s)	Exercised/ lapsed in the year (000s)	Options in issue as at 31 December 2012 (000s)	Option price per share (pence)	Weighted average share price at date of exercise (pence)	Weighted average contractual life remaining (years)
2009 Chalkfree CSOP	872	—	(366)	506	5.25	46.7	5.2
2010 Chalkfree CSOP	1,034	—	(265)	769	5.25	47.5	5.8
IPO Plan	189	—	(70)	119	—	50.9	2.2
PRW CSOP – 2010 grant	232	—	(189)	43	125.00	n/a	7.8
PSP – 2011 grant	3,633	—	(1,053)	2,580	—	21.4	8.2
PRW CSOP – 2011 grant	3,501	—	(1,809)	1,692	59.75	n/a	8.6
PSP – 2012 deferred SMT bonus	—	48	—	48	—	n/a	8.4
PSP – April 2012 grant	—	3,031	(915)	2,116	—	n/a	9.3
PSP – October 2012 grant	—	1,570	—	1,570	—	n/a	9.8
PRW CSOP – April 2012	—	250	(50)	200	51.63	n/a	9.3
PRW CSOP – October 2012	—	335	—	335	17.37	n/a	9.8
PRW CSOP – December 2012	—	50	—	50	15.25	n/a	9.9
Total options	9,461	5,284	(4,717)	10,028	n/a	n/a	8.4

26 Share-based payments continued

Share award schemes

Performance Share Awards (PSA)

In August 2009, certain senior employees including the CFO subscribed for awards of ordinary shares in Chalkfree Limited at 10p per share (post IPO these are now shares in the Company at 5.25p per share). Each eligible employee holds two awards of shares, a 2009 award and a 2010 award. The vesting conditions for these awards are described in the Directors' Remuneration Report. The shares are subject to contractual restrictions on transfer until they have vested. If the shares do not vest (or normally on cessation of employment), the employees will not receive any economic benefit from these awards.

2009 PSA

Under the 2009 award the Base Shares vest in three equal tranches at 30 April 2010, 30 April 2011 and 30 April 2012 and the Superior Shares vest on 30 April 2012 subject to the satisfaction of EBITDA performance targets for the three financial years ending 31 December 2011. In connection with the restructuring review carried out in 2012, the Company waived its right to repurchase unvested shares held (other than those held by the CFO) and therefore those shares are now vested in full.

2010 PSA

Under the 2010 award the Base and the Superior Shares were due to vest on 30 April 2013 subject to the satisfaction of a cumulative EBITDA performance measured over the whole of the three financial years ended 31 December 2012. However, in connection with the restructuring review carried out in 2012, the performance targets in respect of these shares were waived (other than those held by the CFO) and therefore those shares vested subject to continuing employment to 30 April 2013.

Fair value

The awards were settled at fair value and all awards were subscribed and settled in full at the date of grant.

In the opinion of the Directors, the share price at the date of grant was no more than par value, therefore no IFRS 2 *Share-based Payment* charge had been reflected in the income statement.

Disclosure of the movements in share awards

The number of share awards outstanding in 2013 was as follows:

	RSA shares (000s)	PSA shares (000s)	CCSA shares (000s)	Total LTIP shares (000s)
Share awards at 1 January 2012	23	1,392	1,905	3,320
Vested in the year 2012	(23)	(938)	(323)	(1,284)
Lapsed in the year	—	(25)	(1,582)	(1,607)
Share awards at 1 January 2013	—	429	—	429
Vested in the year	—	(308)	—	(308)
Lapsed in the year	—	(121)	—	(121)
LTIP share awards as at 31 December 2013	**—**	**—**	**—**	**—**

27 Financial instruments

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

	2013		2012	
Group	**Carrying amount £000**	**Fair value £000**	Carrying amount £000	Fair value £000
Trade receivables	**19,166**	**19,166**	23,411	23,411
Other receivables	**2,934**	**2,934**	1,934	1,934
Cash and cash equivalents	**17,591**	**17,591**	8,011	8,011
Forward exchange contracts – assets	**163**	**163**	74	74
Forward exchange contracts – liabilities	**—**	**—**	(55)	(55)
Trade payables	**(9,847)**	**(9,847)**	(8,849)	(8,849)
	30,007	**30,007**	24,526	24,526

The basis for determining fair values is disclosed in note 4.

Notes continued

(forming part of the financial statements)

27 Financial instruments continued

Fair value hierarchy

The Group classifies the methodology by which it fair values its financial instruments as one of the following different levels:

→ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

→ Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

→ Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All the Group's financial instruments at fair value are valued in accordance with the Level 2 methodology.

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was:

	Group 2013 £000	Group 2012 £000
Financial assets at fair value through profit or loss	**163**	74
Trade receivables	**19,166**	23,411
Other receivables	**2,934**	1,934
Cash and cash equivalents	**17,591**	8,011
	39,854	33,430

The Company had no financial assets exposed to credit risk at either 31 December 2013 or 31 December 2012.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Group	2013 £000	2012 £000
North America	**5,848**	8,879
International	**13,318**	14,532
	19,166	23,411

The maximum exposure to credit risk for trade receivables at the reporting date by type of counterparty was:

Group	2013 £000	2012 £000
Wholesale customers	**18,881**	23,351
Local authorities/schools and colleges	**285**	60
	19,166	23,411

27 Financial instruments continued

Impairment losses

The ageing of trade receivables that were not impaired at the reporting date was as follows:

Group	2013 £000	2012 £000
Not past due	**16,555**	19,868
Past due 1–30 days	**1,722**	1,308
Past due 31–120 days	**69**	1,451
Past due more than 120 days	**820**	784
	19,166	23,411

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

Group	2013 £000	2012 £000
Balance at 1 January	**4,034**	464
Impairment loss (reversed)/recognised	**(674)**	3,660
Amounts written off	**(13)**	(90)
Balance at 31 December	**3,347**	4,034

As outlined in note 5, the Group manages credit risk by allocating customers a credit limit and ensuring the Group's exposure is within this limit. This approach is strengthened with the use of credit insurance when management considers it to be appropriate. The credit insurance policy does not require any collateral to be held as security. Accordingly management considers the current level of impairment provision in respect of trade receivables appropriate. In 2012 the Group recognised an impairment charge of £3.1m relating to one specific reseller as it considered the debt unlikely to be paid. As at December 2013 management have reviewed the provision and concluded that a partial reversal of £0.7m was appropriate based on funds recovered during the period. Both the recognition and reversal of the impairment have been disclosed as exceptional items.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

2013 Group	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6–12 months £000	1–2 years £000	2–5 years £000	More than 5 years £000
Non-derivative financial liabilities							
Trade payables	9,847	9,847	9,847	—	—	—	—
Derivative financial liabilities							
Foreign exchange contracts	—	—	—	—	—	—	—
	9,847	**9,847**	**9,847**	**—**	**—**	**—**	**—**

Notes continued

(forming part of the financial statements)

27 Financial instruments continued

Liquidity risk continued

2012 Group	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6–12 months £000	1–2 years £000	2–5 years £000	More than 5 years £000
Non-derivative financial liabilities							
Trade payables	8,849	8,849	8,849	—	—	—	—
Derivative financial liabilities							
Foreign exchange contracts	55	55	40	15	—	—	—
	8,904	8,904	8,889	15	—	—	—

At both 31 December 2013 and 31 December 2012, no derivatives were designated as cash flow hedges.

At both 31 December 2013 and 31 December 2012, the Company had no trade and other payables.

Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk in respect of the current assets and liabilities per the Statement of Financial Position and forward foreign exchange contracts was as follows, based on notional amounts (all amounts are expressed in thousands):

	2013				2012			
Group	**GBP**	**USD**	**EUR**	**CNY**	GBP	USD	EUR	CNY
Trade receivables	**1,784**	**17,132**	**7,012**	**11,502**	1,542	26,541	5,957	5,967
Trade payables	**(1,564)**	**(10,646)**	**(54)**	**(17,970)**	(1,248)	(9,487)	(212)	(15,934)
Gross statement of financial position exposure	**220**	**6,486**	**6,958**	**(6,468)**	294	17,054	5,745	(9,967)
Forward exchange contracts buy/(sell)	**9,750**	**—**	**(11,500)**	**—**	7,385	—	(9,000)	—
Net exposure	**9,970**	**6,486**	**(4,542)**	**(6,468)**	7,679	17,054	(3,255)	(9,967)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2013	2012	**2013**	2012
USD	**1.5580**	1.5830	**1.6491**	1.6168
EUR	**1.1790**	1.2420	**1.1979**	1.2234
CNY	**9.7084**	10.0650	**10.0827**	10.2120

Sensitivity analysis

The table below details the Group's sensitivity to a 10% strengthening in GBP against the relevant foreign currencies. A 10% sensitivity has been used in 2013 and 2012 as it is considered a reasonable approximation of the range in which GBP may fluctuate against the USD and Euro.

27 Financial instruments continued

Currency risk continued

Sensitivity analysis continued

The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis also includes the impact on the Group results of translating the closing net assets of foreign entities with a 10% movement in foreign currency rates and a 5% (average) movement on their earnings. The calculation also takes account of the effect on foreign currency revenues, purchases, assets and liabilities of the Group's UK legal entities.

This analysis assumes that all other variables, in particular interest rates, remain constant.

Group	Equity £000	Profit/(loss) £000
31 December 2013		
USD	**(4,160)**	**(982)**
EUR	**(943)**	**(629)**
CNY	**(2,017)**	**(74)**
31 December 2012		
USD	(3,518)	(310)
EUR	(1,272)	(494)
CNY	(1,877)	(169)

A 10% weakening of GBP against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

In management's opinion the sensitivity analysis is unrepresentative of the inherent foreign exchange risk, as the year-end exposure does not reflect the exposure during the year. USD and Euro denominated sales are seasonal which results in a reduction in USD and Euro receivables at the year end.

Interest rate risk

At 31 December 2013 and 31 December 2012, the Group had no drawn interest-bearing financial liabilities.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model.

No further interest rate hedging arrangements have been entered into during either 2013 or 2012.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
Group	100 bp increase £000	100 bp decrease £000	100 bp increase £000	100 bp decrease £000
2013				
Variable rate instruments	**176**	**(81)**	**176**	**(81)**
Cash flow sensitivity (net)	**176**	**(81)**	**176**	**(81)**
2012				
Variable rate instruments	80	(39)	80	(39)
Cash flow sensitivity (net)	80	(39)	80	(39)

Notes continued

(forming part of the financial statements)

28 Operating leases

The total remaining rentals payable under non-cancellable operating leases are as follows:

Group	2013 £000	2012 £000
In less than one year	**1,929**	1,983
Between one and five years	**2,399**	2,225
In more than five years	**139**	—
	4,467	4,208

Operating lease rentals expensed in the Statement of Comprehensive Income were as follows:

Group	2013 £000	2012 £000
Operating lease charge	**2,099**	2,475

The Group has operating lease contracts in place for buildings, equipment hire and vehicles.

The buildings leases cover many of the sites in the UK and also business premises in the US, China, France and Germany and sales offices in Hong Kong, Australia, Bahrain and Singapore. The durations of these leases do not exceed ten years.

Operating leases in respect of vehicles generally have a three-year term.

Operating lease terms in respect of equipment typically range between three and five years.

The operating lease commitments disclosed above include those provided through the onerous lease provision (see note 24).

The Company does not hold any operating leases.

29 Capital commitments

At 31 December 2013, the Group had capital commitments of £310,000 (2012: £376,000). These commitments are expected to be settled in the following financial year.

The Company had no capital commitments as at either 31 December 2013 or 31 December 2012.

30 Related parties

Transactions with key management personnel

Loans to Directors

At 31 December 2013 and 31 December 2012, there were no loans outstanding to Directors.

Key management personnel compensation

In addition to their salaries, the Group also provides non-cash benefits to Directors and Executive Officers and contributes to a post-employment defined contribution plan on their behalf.

Key management personnel compensation comprised:

Group	**2013 £000**	2012 £000
Short-term employee benefits	**3,482**	3,120
Post-employment benefits	**146**	172
Termination benefits	**—**	1,410
Share-based payments	**621**	746
	4,249	5,448

Key management includes both Executive and Non-Executive Board Directors and other members of the Group's Senior Management Team (SMT). In 2013, no SMT members left the business and one new SMT member was appointed. As at 31 December 2013 there were 16 key management (2012: 15).

Key management personnel and Director transactions

Certain Directors, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with Directors and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to these related party transactions were as follows:

	Transaction value sale/(purchase)		Balance outstanding debtor/(creditor)	
Group	**Year ended 2013 £000**	Year ended 2012 £000	**Year ended 2013 £000**	Year ended 2012 £000
Whitebirk Finance Limited	**(120)**	(120)	**(70)**	—

Whitebirk Finance Limited, a company owned by Tony Cann, owns and leases Promethean House to the Group.

Other Group related party transactions

In the ordinary course of business, goods are manufactured in China and supplied to the UK for sale on to either the Group's sales and distribution offices in the US, France and Germany or directly to external customers. All transactions and outstanding balances with these related parties are priced on an arm's length basis and are to be settled in the ordinary course of business. None of the balances are secured.

Company related party transactions

The Company transacts and has outstanding balances with certain of its subsidiaries. Amounts due from subsidiaries and amounts due to subsidiaries are disclosed in the notes to the financial statements.

No interest is charged on amounts due from Group entities.

No dividends were received from subsidiaries in the year (2012: £nil).

Notes continued

(forming part of the financial statements)

31 Group entities

Significant subsidiaries as at 31 December 2013

Subsidiary undertaking	Country of registration	Principal activity	Class and percentage of shares held
Chalkfree Limited	England and Wales	Holding company	Ordinary £0.10 shares 100%
Promethean (Holdings) Limited	England and Wales	Holding company	Ordinary £1 shares 100%
Promethean Limited	England and Wales	Distributor of electronic equipment	Ordinary £1 shares 100%
Promethean GmbH	Germany	Distributor of electronic equipment	Ordinary €1 shares 100%
Promethean SAS	France	Distributor of electronic equipment	Ordinary €1,193 shares 100%
Promethean Inc.	USA	Distributor of electronic equipment	Ordinary $0.01 shares 100%
Promethean Technology (Shenzhen) Limited	China	Manufacturer and distributor of electronic equipment	Ordinary shares 100%
Promethean World Inc.[1]	USA	Non-trading	Ordinary $0.001 shares 100%
Promethean Technology Limited[1] (formerly Promethean World Limited)	England and Wales	Non-trading	Ordinary £1 shares 100%

1. Dormant companies.

With the exception of Chalkfree Limited all of the above are indirect holdings.

All of the above undertakings are included within the consolidated results.

C. Accountants' Report of Promethean for the year ended 31 December 2014

INDEPENDENT AUDITOR'S REPORT

to the members of Promethean World Plc only

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Promethean World Plc for the year ended 31 December 2014 set out on pages 69 to 108. In our opinion:

→ the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2014 and of the Group's loss for the year then ended;

→ the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);

→ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and

→ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit are set out below.

Carrying value of development cost intangible assets (£18.1 million):

Refer to page 35 (Report of the Audit Committee), page 78 (accounting policy) and page 94 (financial disclosures).

The risk – Development costs are capitalised where the criteria of accounting standards are met. In assessing these criteria the Group makes assumptions relating to the future commercial and technical viability of the respective projects and their ability to generate future revenues (including amongst others, expected average selling price, expected sales volume and applicable discount rate). Due to the inherent uncertainty involved in forecasting future net cash flows, which are the basis of the assessment of both the criteria for initial capitalisation and for recoverability of capitalised amounts, this is one of the key judgmental areas of our audit.

Our response – In this area our audit procedures included:

We assessed whether costs had been appropriately capitalised in line with accounting standards by testing the Group's controls over appropriate authorisation and allocation of development costs to projects and inspected the minutes from discussions held by project managers, who assess the progress of relevant projects, at quarterly development meetings to assess the Group's continued commitment to completing development projects.

In assessing the likelihood of technical viability, we considered the track record of the Group in bringing newly developed products to market by using our knowledge of the client. In respect of certain projects in later stages of development, we also obtained evidence that a functioning product existed.

In respect of assessing both whether projects are commercially viable and whether amounts capitalised are impaired we considered forecast revenues on a project by project basis and challenged the Group's assumptions by comparing them to historical actual trends, industry norms and economic data for the education market. We also critically assessed past performance on forecasting accuracy. We also considered the adequacy of the Group's disclosures in respect of the judgments and estimates made in respect of the carrying value of development assets.

Valuation of deferred taxation assets (£2.4 million):

Refer to page 36 (Report of the Audit Committee), page 82 (accounting policy) and page 92 (financial disclosures).

The risk – The Group has significant potential deferred tax assets in respect of tax losses. There is inherent uncertainty involved in forecasting future taxable profits (particularly in view of the Group's investment in research & development and the associated availability of tax reliefs) which determines the extent to which deferred tax assets are or are not recognised. This is one of the key judgment areas of our audit.

Our response – In this area our audit procedures included:

We challenged the Group's forecasts of future taxable profits by using the results of our work over forecast revenues on a project by project basis as discussed above under 'Carrying value of development cost intangible assets.' We also challenged the Group's assumptions over future costs by comparing forecast with historical amounts and our expectations based on our knowledge of the Group. We also considered the appropriateness of adjustments made by the Group in translating its future accounting profits into future taxable profits taking into account our knowledge of differences between the tax and accounting treatment of items within the financial statements as well as the tax profile of the Group with reference to available reliefs.

We considered the period over which tax losses carried forward are expected to be recovered and past performance of the Group in utilising assets as well as its forecasting accuracy and critically assessed the Group's conclusion that a significant part of the deferred tax asset previously recognised should be de-recognised. We also considered the adequacy of the Group's disclosures in respect of the judgments and estimates made in respect of the recognition and de-recognition of deferred taxation assets.

In the prior year, the risks that had the greatest effect on our audit also included:

→ Valuation of receivables

→ Valuation of inventories

While we continue to perform audit procedures over these matters, these risks were deemed to be less significant to the current year's audit due to improvement in the profile of customer balances (in the case of receivables) and actions taken by the Group to improve the profile of inventory held and therefore to reduce the risk of inventory obsolescence.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £0.8 million. This has been determined with reference to a benchmark of Group revenues (of which it represents 0.7%).

We report to the Audit Committee all corrected and uncorrected misstatements we identified through our audit with a value in excess of £40,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Of the Group's three reporting components, we subjected three to audits for group reporting purposes.

The components within the scope of our work accounted for the following percentages of the Group's results:

	Number of components	Group revenue	Group loss before tax	Group total assets
Audits for group reporting purposes	3	93%	83%	96%
Total	**3**	**93%**	**83%**	**96%**

The remaining 7% of total Group revenue, 17% of Group loss before tax and 4% of total Group assets is represented by two reporting components, none of which individually represented more than 10% of any of total Group revenue, Group loss before tax or total Group assets.

For these remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materiality, which ranged from £0.35m to £0.8m, having regard to the mix of size and risk profile of the Group across the components. The work on one of the three components was performed by component auditors and the rest by the Group audit team.

The Group audit team visited one component location in the USA. Telephone conference meetings were also held with others that were not physically visited. At these meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

→ the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

→ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Promethean World Plc only

Opinions and conclusions arising from our audit continued

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- → we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- → the Report of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- → adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- → the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- → certain disclosures of Directors' remuneration specified by law are not made; or
- → we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- → the Directors' statement, set out on page 64, in relation to going concern; and
- → the part of the Corporate Governance Statement on page 26 relating to the Company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 65 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Stuart Burdass

Stuart Burdass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
18 February 2015

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December

	Note	2014 £000	2013 £000
Revenue	7	**118,174**	141,158
Cost of sales		**(80,477)**	(90,572)
Gross profit		**37,697**	50,586
Operating expenses	9	**(45,599)**	(56,491)
Analysis of results from operating activities:			
Earnings before interest, tax, depreciation, amortisation, exceptional items and share-based payments		**839**	9,407
Depreciation and amortisation (excluding amortisation of acquired intangible assets)		**(7,934)**	(10,129)
Amortisation of acquired intangible assets		**—**	(782)
Exceptional costs	8	**(1,932)**	(4,267)
Exceptional income	8	**1,451**	742
Share-based payments		**(326)**	(876)
Results from operating activities		**(7,902)**	(5,905)
Finance income	11	**20**	192
Finance expense	11	**(1,766)**	(993)
Net finance expense	11	**(1,746)**	(801)
Loss before income tax		**(9,648)**	(6,706)
Income tax (expense)/credit	12	**(6,854)**	909
Loss for the year[1]		**(16,502)**	(5,797)
Loss per share			
Basic loss per share (pence)	22	**(8.17)**	(2.89)
Diluted loss per share (pence)	22	**(8.17)**	(2.89)

1. All attributable to equity shareholders.

The loss for the year and loss per share are entirely from continuing operations.

The notes on page 74 to page 108 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

	2014 £000	2013 £000
Loss for the year from the income statement	**(16,502)**	(5,797)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences – foreign operations	**1,182**	291
Net gain/(loss) on net investments in foreign operations	**694**	(209)
	1,876	82
Total comprehensive income for the year[1]	**(14,626)**	(5,715)

1. All attributable to equity shareholders.

The loss for the year and loss per share are entirely from continuing operations.

The notes on page 74 to page 108 are an integral part of these financial statements.

FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

as at 31 December

Registered number 7118000

	Note	**Group 2014 £000**	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Assets					
Property, plant and equipment	14	**7,534**	7,741	**—**	—
Intangible assets	15	**18,141**	14,219	**—**	—
Investments	16	**—**	—	**21,112**	20,807
Deferred tax assets	12	**2,364**	8,326	**—**	—
Total non-current assets		**28,039**	30,286	**21,112**	20,807
Inventories	18	**12,007**	8,670	**—**	—
Derivative financial assets	17	**105**	163	**—**	—
Trade and other receivables	19	**22,672**	24,601	**56,367**	56,588
Current tax assets		**1,216**	838	**—**	—
Cash and cash equivalents	20	**4,706**	17,591	**5**	8
Total current assets		**40,706**	51,863	**56,372**	56,596
Total assets		**68,745**	82,149	**77,484**	77,403
Liabilities					
Trade and other payables	23	**(28,119)**	(25,937)	**(16,161)**	(16,161)
Provisions	24	**(3,113)**	(3,735)	**—**	—
Current tax liabilities		**(665)**	(779)	**—**	—
Total current liabilities		**(31,897)**	(30,451)	**(16,161)**	(16,161)
Provisions	24	**(225)**	(685)	**—**	—
Total non-current liabilities		**(225)**	(685)	**—**	—
Total liabilities		**(32,122)**	(31,136)	**(16,161)**	(16,161)
Net assets		**36,623**	51,013	**61,323**	61,242
Equity					
Share capital	21	**20,320**	20,000	**20,320**	20,000
Share premium		**99,796**	99,796	**99,796**	99,796
Capital reserve		**93,990**	93,990	**—**	—
Translation reserve (FCTR)		**6,010**	4,134	**—**	—
Retained earnings		**(183,493)**	(166,907)	**(58,793)**	(58,554)
Total equity (all attributable to equity holders of the Company)		**36,623**	51,013	**61,323**	61,242

These financial statements were approved by the Board of Directors on 18 February 2015 and were signed on its behalf by:

Ian Baxter
Director

The notes on page 74 to page 108 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Capital reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2013	20,000	99,796	93,990	4,052	(161,897)	55,941
Total comprehensive income for the year						
Loss for the year	—	—	—	—	(5,797)	(5,797)
Foreign currency translation differences – foreign operations	—	—	—	291	—	291
Net loss on net investment in foreign operations	—	—	—	(209)	—	(209)
Total other comprehensive income	—	—	—	82	—	82
Total comprehensive income for the year	—	—	—	82	(5,797)	(5,715)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share-based payments (net of tax)	—	—	—	—	787	787
Total contributions by and distributions to owners	—	—	—	—	787	787
Balance at 31 December 2013	**20,000**	**99,796**	**93,990**	**4,134**	**(166,907)**	**51,013**

	Share capital £000	Share premium £000	Capital reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2014	20,000	99,796	93,990	4,134	(166,907)	51,013
Total comprehensive income for the year						
Loss for the year	—	—	—	—	(16,502)	(16,502)
Foreign currency translation differences – foreign operations	—	—	—	1,182	—	1,182
Net gain on net investment in foreign operations	—	—	—	694	—	694
Total other comprehensive income	—	—	—	1,876	—	1,876
Total comprehensive income for the year	—	—	—	1,876	(16,502)	(14,626)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of share capital to Employee Benefit Trust	320	—	—	—	(320)	—
Share-based payments (net of tax)	—	—	—	—	236	236
Total contributions by and distributions to owners	320	—	—	—	(84)	236
Balance at 31 December 2014	**20,320**	**99,796**	**93,990**	**6,010**	**(183,493)**	**36,623**

The notes on page 74 to page 108 are an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2013	20,000	99,796	(59,166)	60,630
Total comprehensive income for the year				
Loss for the year	—	—	(254)	(254)
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Share-based payments	—	—	866	866
Balance at 31 December 2013	**20,000**	**99,796**	**(58,554)**	**61,242**

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2014	20,000	99,796	(58,554)	61,242
Total comprehensive income for the year				
Loss for the year	—	—	(224)	(224)
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Issue of share capital to Employee Benefit Trust	320	—	(320)	—
Share-based payments	—	—	305	305
Balance at 31 December 2014	**20,320**	**99,796**	**(58,793)**	**61,323**

The notes on page 74 to page 108 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the year ended 31 December

	Note	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Cash flows from operating activities					
Loss for the year		**(16,502)**	(5,797)	**(224)**	(254)
Adjustments for:					
Depreciation	14	**2,515**	3,250	**—**	—
Amortisation of intangible assets	15	**5,419**	7,661	**—**	—
Impairment losses on property, plant and equipment	14	**—**	125	**—**	—
Impairment losses on intangible assets	15	**—**	4,142	**—**	—
Impairment losses on trade receivables		**286**	—	**—**	—
Reversal of exceptional impairment losses on trade receivables		**(977)**	(674)	**—**	—
Loss/(gain) on sale of property, plant and equipment		**52**	(9)	**—**	—
Net finance expense	11	**1,746**	801	**221**	252
Income tax expense/(credit)	12	**6,854**	(909)	**—**	—
Share-based payments	26	**326**	876	**—**	—
		(281)	9,466	**(3)**	(2)
Change in inventories		**(2,806)**	6,891	**—**	—
Change in trade and other receivables		**2,890**	4,054	**—**	1
Change in trade and other payables		**392**	2,537	**—**	938
Change in provisions		**(1,081)**	(2,013)	**—**	—
Cash (used in)/generated from operations		**(886)**	20,935	**(3)**	937
Finance cost received/(paid)		**447**	(1,058)	**—**	—
Income tax (paid)/received		**(978)**	210	**—**	—
Cash inflow/(outflow) from settlement of derivatives		**461**	(226)	**—**	—
Net cash (outflow)/inflow from operating activities		**(956)**	19,861	**(3)**	937
Cash flows from investing activities					
Finance income received		**20**	48	**—**	—
Proceeds from sale of property, plant and equipment		**92**	126	**—**	—
Acquisition of property, plant and equipment	14	**(2,285)**	(1,252)	**—**	—
Development expenditure		**(9,797)**	(8,072)	**—**	—
Net cash used in investing activities		**(11,970)**	(9,150)	**—**	—
Cash flows from financing activities					
Transaction costs of bank facility		**—**	(938)	**—**	(938)
Net cash used in financing activities		**—**	(938)	**—**	(938)
Net (decrease)/increase in cash and cash equivalents		**(12,926)**	9,773	**(3)**	(1)
Cash and cash equivalents at 1 January		**17,591**	8,011	**8**	9
Exchange rate effects		**41**	(193)	**—**	—
Cash and cash equivalents at 31 December	20	**4,706**	17,591	**5**	8

The notes on page 74 to page 108 are an integral part of these financial statements.

NOTES

(forming part of the financial statements)

1 Reporting entity

Promethean World Plc ('the Company') is a company registered in England and Wales. The address of the Company's registered office is Promethean House, Lower Philips Road, Whitebirk Industrial Estate, Blackburn, Lancashire BB1 5TH.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities') for the year ended 31 December 2014.

The parent company financial statements present information about the Company as a separate entity and not about its Group. In accordance with Section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account. The amount of the loss for the financial year dealt with in the financial statements of the Company is £224,000 (2013: £254,000).

The Group's Promethean brand is a leader in the global market for interactive learning technology. The Group creates, develops, supplies and supports leading-edge, interactive learning technology primarily for the education market. Promethean's solutions include its interactive display systems (ActivBoard, ActivTable and ActivPanel), its student response systems (ActiVote and ActivExpression) and its specialised teaching software (ActivInspire, ActivEngage and ClassFlow™).

Promethean also provides comprehensive training and support and, now with over 2.1 million members, Promethean Planet (www.PrometheanPlanet.com) is the world's largest online community for users of interactive learning technology, providing user-generated and premium content and is a forum for teachers to exchange ideas and experience.

2 Basis of preparation

(a) Statement of compliance

Both the parent company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs').

The parent company financial statements and the Group financial statements were authorised for issue by the Board of Directors on 18 February 2015.

(b) Basis of measurement

The parent company and Group financial statements have been prepared on the historical cost basis except for all derivative contracts being carried at their fair value.

The methods used to measure fair values are discussed further in note 4.

(c) Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 4 to 25. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in note 27. In addition, note 5 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

As at 31 December 2014, the Group Statement of Financial Position shows net assets of £36.6m and net cash of £4.7m.

The Group has a secured bank facility agreement for up to £25m arranged by Burdale Financial Limited with Wells Fargo Bank. This asset-based lending facility runs to 30 September 2017. This facility was undrawn at the year end.

The facility is available to Promethean Limited and Promethean Inc. It is secured by share pledges over the shares of Promethean SAS and Promethean GmbH and by fixed and floating charges over the assets of Promethean World Plc, Promethean Inc., Promethean Limited, Chalkfree Limited and Promethean (Holdings) Limited.

On the basis of the existing banking facilities in place as at 31 December 2014 and management's forecasts, there is sufficient headroom for the Group to operate for the foreseeable future. In making their assessment, the Directors have considered future cash flows and borrowing facility availability as well as considering the Group's normal trading and working capital cycles, the effects of which have been accentuated by the 2014 results. The Group's forecast, taking account of reasonably possible changes in trading, show that the Company should be able to operate within the level of its current facility.

Having made appropriate enquiries, the Directors are satisfied that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they have continued to adopt the going concern basis in preparing the Company and consolidated financial statements.

(d) Functional and presentation currency

These financial statements are presented in Sterling (GBP), which is the Company's functional currency. All financial information presented in GBP has been rounded to the nearest thousand.

2 Basis of preparation continued

(e) Use of estimates and judgements

The preparation of financial statements in conformity with Adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are as follows:

→ valuation of intangible assets;

→ deferred taxation;

→ inventory provision;

→ trade receivable impairments; and

→ warranty provision.

The accounting policy descriptions set out the areas where judgement needs exercising, the most significant of which are outlined below:

→ Research and development – The Group invests significant amounts on developing a range of products for a market that is technologically advanced. Judgement is required to ensure that the projects are technically feasible and, when complete, will be commercially viable.

→ Taxation – The Group has significant tax losses built up over previous years and judgement is required over whether to recognise a deferred tax asset in respect of any of these losses. Management reviews forecasts that require judgement over the commercial viability of new products including the absolute timing and the rate of adoption of this new technology. Judgement is also required over the quantum and timing of available tax reliefs.

The areas where the Group has estimated the fair value of assets and liabilities are outlined in note 4 and the financial risk management policies are detailed in note 5.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Group and Company financial statements and have been applied consistently by Group entities.

(a) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and entities controlled by the Company, all of which are made up to 31 December each year. Control exists when the Company is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Power is defined as existing rights that give the Company the ability to direct the relevant activity. All subsidiaries are directly or indirectly 100% owned by the parent.

Income and expenses of subsidiaries are included in the financial statements from the date control is gained until the date the Company ceases to control the subsidiary.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on a financial asset considered to be part of the net investment in the foreign subsidiary, which are recognised directly in equity (see (b)(iii)).

3 Significant accounting policies continued

(b) Foreign currency continued

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to GBP at exchange rates at the reporting date. The income and expenses of foreign operations are translated to GBP at average exchange rates which approximate to actual rates for the relative accounting periods.

Foreign currency differences are recognised in other comprehensive income and presented in the foreign currency translation reserve (FCTR) within equity. When a foreign operation is disposed of in full, the cumulative amount in the translation reserve related to the foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the Group would re-attribute the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Group would reclassify to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income.

(iii) Net investment in foreign operation

Foreign exchange gains and losses arising from a monetary item receivable from a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation.

Foreign currency differences arising on the retranslation of a financial asset designated as a net investment in a foreign operation are recognised in other comprehensive income and are presented in the FCTR within equity. When the net investment is disposed of, the relevant amount in the FCTR is transferred to profit or loss as part of the gain or loss on disposal.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and current balances with banks and are held at amortised cost.

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value. When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

(iii) Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. The ineffective portion of cash flow hedges are recognised immediately in the Consolidated Statement of Comprehensive Income.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss in equity is recognised in the Statement of Comprehensive Income immediately. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(iv) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

3 Significant accounting policies continued

(d) Business combinations

The Group has applied IFRS 3 (2008) *Business Combinations* for all business combinations occurring on or after 1 January 2010.

Business combinations are accounted for by applying the acquisition method as at the acquisition date, which is the date on which the entity obtains control of the acquiree, as described in note 3(a).

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill as:

→ the fair value of the consideration transferred; plus

→ the recognised amount of any non-controlling interests in the acquiree; plus

→ if the business combination is achieved in stages, the fair value of the existing interest in the acquiree; less

→ the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain would be recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at the fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions prior to 1 January 2010

For acquisitions prior to 1 January 2010, goodwill represents the excess of the cost of acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of acquisition.

(e) Investments

Investments represent equity interests where the Group does not have significant interest or control.

The Group's investment in equity interests is classified as an available-for-sale financial asset. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

The Company's investments represent equity interests in subsidiary undertakings where the Company has significant interest or control. Investments are recognised at cost less impairment losses.

(f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

NOTES CONTINUED
(forming part of the financial statements)

3 Significant accounting policies continued

(f) Property, plant and equipment continued

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

→ Freehold buildings 25 years

→ Plant and equipment 3–10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(g) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented within intangible assets.

For measurement of goodwill at initial recognition, see note 3(d).

Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but tested at least annually for impairment.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. The Group does not have any borrowing costs that specifically relate to qualifying assets. All other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangibles include interactive lesson content.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(v) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

→ Internally generated development assets 1–3 years

→ Acquired development assets 5–10 years

→ Acquired customer contracts and relationships 1–6 years

3 Significant accounting policies continued

(h) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's Statement of Financial Position.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and other short-term highly liquid investments with maturities of three months or less.

(k) Impairment (excluding inventories and deferred tax assets)

The carrying amounts of the Group's assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment; a financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

The carrying value of the development assets and their remaining asset lives are reviewed periodically. In the event that projects or product lines have been discontinued then the corresponding development asset will be fully amortised. To the extent that management is aware of a reduction in demand for a particular product line, a review of forecast sales will be used to determine whether the reduction in demand has given rise to an impairment.

The carrying value and remaining asset lives of customer contracts, acquired through business combinations, are reviewed every six months taking into consideration any changes to contract terms in that period and how those changes will impact future cash flows under that contract.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair values less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Significant accounting policies continued

(l) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as a personnel expense over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with market conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

For equity-settled awards there is a corresponding increase to equity. For cash-settled awards there is a corresponding increase in liabilities. This liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

(i) Warranties

A provision for warranties is recognised when underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on associated assets.

(n) Revenue recognition

(i) Goods sold

The Group sells the majority of its products to a global network of distributors and reseller partners. They are Promethean's customers for revenue recognition purposes. In the vast majority of cases the end users of the product are the customers of our distributors/resellers.

Revenue from the sale of goods is measured at the fair value of consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

Risks and rewards of ownership are transferred in accordance with Incoterms 2010. Typically goods are despatched ex works. Customers do not have a contractual right of return of goods, aside from standard clauses regarding defective products.

All revenue is reported exclusive of value-added tax and other sales taxes.

3 Significant accounting policies continued

(n) Revenue recognition continued

(ii) Sale of software

The Promethean global software licence provided with the sale of hardware includes only a short-term warranty that guarantees the software will function in accordance with the published specification for 90 days from purchase. The Group has no contractual obligation to provide ongoing support or updates to this software. As a result the Group recognises revenue when the significant risks and rewards of ownership of the associated hardware have been transferred to the customer. Software that the Group provides that is not essential to the functionality of the hardware is sold and accounted for separately. For this software sold stand-alone:

→ Subscription revenue is recognised on a straight-line basis over the term of the subscription contract. Revenue not recognised in the income statement under this policy is classified as deferred income in the Statement of Financial Position.

→ Software licences: the Group recognises the revenue attributable to software licences when all the following conditions have been satisfied:

  → the Group has transferred to the buyer the significant risks and rewards of ownership of the licence, typically when the licence key is sent;

  → the amount of revenue can be measured reliably;

  → it is probable that the economic benefits associated with the transaction will flow to the Group; and

  → the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Where software is sold with contractual maintenance/upgrades, the consideration is allocated between the different elements on a relative fair value basis. Revenue in respect of contractual maintenance/upgrades is recognised on a straight-line basis over the period of the contract as services are provided equally over the course of the contract.

(iii) Maintenance contract revenue

Revenue from maintenance contracts, extended warranties and enhanced service sales are recognised on a straight-line basis over the period of the contract as services are provided equally over the course of the contract.

Payments received in advance of services are recorded in the Statement of Financial Position as deferred income and are recognised in the Consolidated Statement of Comprehensive Income proportionately over the period that the services are provided.

(iv) Training revenue

Revenue from sales of training is recognised once the training has been provided.

(v) Royalty revenue

The Group receives revenue from sales of interactive lesson content developed in conjunction with and sold via a third party. Revenue is recognised on receipt of confirmation of sales from the third party.

(o) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(p) Finance income and expenses

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest and commitment fee expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

NOTES CONTINUED

(forming part of the financial statements)

3 Significant accounting policies continued

(q) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised in respect of temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Exceptional items

Exceptional costs and income are those that in management's view need to be disclosed by virtue of their size or non-recurring nature. Such items are included in the income statement under a caption to which they relate and are separately disclosed in the notes to the consolidated financial statements.

(s) Earnings per share

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effect of all dilutive potential ordinary shares, which comprise share options granted to employees.

(t) Segment reporting

The Group's primary format for segment reporting is based on geographical sales destination. The geographical segments are determined based on the Group's management and internal reporting structure. The operating results for each segment are reviewed regularly by the Directors, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(u) Other costs

(i) Bid costs

Costs associated with large tender activity and special bids, typically personnel costs and expenses, are expensed as incurred.

(ii) Promethean Planet costs

Costs associated with the creation and maintenance of the Promethean Planet website are expensed as incurred. Revenue from Promethean Planet is not material.

(v) New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations issued by the International Accounting Standards Board became effective during the year but have no material effect on the Group's financial statements:

→ Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

→ Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

→ Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

→ Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

→ IFRIC 21 *Levies*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015 and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(b) Intangible assets

Whilst goodwill is held at cost and development costs are valued at cost less amortisation, their carrying values are assessed to ensure that they do not exceed the lower of net realisable value and value in use at the end of each reporting period.

The fair values of intangible assets recognised as a result of a business combination are based on market values, as determined by an independent valuation.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of products developed.

(c) Trade and other receivables

The fair value of short-term trade and other receivables is deemed to be its book value less any impairment provision. The effect of discounting is considered to be immaterial.

(d) Derivatives

The fair value of forward exchange contracts and interest rate swaps and caps are based on market valuations.

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5 Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

→ credit risk;

→ liquidity risk; and

→ market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Executive Directors report regularly to the Board of Directors on Group risk management.

5 Financial risk management continued

Credit risk

Trade receivables are collected by credit control teams based in the US (for North American receivables) and the UK (for International receivables). Both these teams report to the Global Credit Manager who oversees the collection of all trade receivables. Credit limits are set as deemed appropriate for the customer. Sales to distributors and resellers are made based on recommended credit limits and, where suitable cover is available, credit insurance is used. Due to the seasonal and tender driven nature of the business there can be occasions where credit risk is concentrated across a small number of customers. Such situations persist only for short periods of time.

Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

As at 31 December 2014, the Group has in place a £25m asset-based lending facility that can be drawn on the day of request; this facility will expire on 30 September 2017. The interest rate is 200 to 250 basis points over 30-day LIBOR. This facility was undrawn at the year end.

In addition, the Group manages all of its external bank relationships centrally in accordance with defined treasury policies. The policies include the minimum acceptable credit rating of relationship banks and financial transaction authority limits. Any material change to the Group's principal banking facility requires Board approval. The Group seeks to mitigate the risk of bank failure by ensuring that it maintains relationships with a number of investment grade banks.

As at 31 December 2014, the Group was cash positive with no outstanding external loans or borrowings.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return.

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily Sterling (GBP), US Dollars (USD), Euros (EUR) and Chinese Renminbi (CNY). Transactions outside of these currencies are limited.

The Group reviews its net currency exposures for a rolling twelve-month period. The Group purchases the majority of its raw materials in USD which is offset against USD sales thereby reducing net foreign exchange exposure.

In calculating its net transaction exposure, the Group takes into account its trade receivables and trade payables denominated in a foreign currency. The Group uses forward exchange contracts as an economic hedge against currency risk, where cash flow can be judged with reasonable certainty. Foreign exchange swaps and options may be used to hedge foreign currency receipts in the event that the timing of the receipt is less certain.

Interest rate risk

As at 31 December 2014, the Group was cash positive with no outstanding external loans or borrowings.

Other market price risk

The Group does not enter into commodity contracts other than to purchase raw materials to meet the Group's expected usage requirements.

5 Financial risk management continued

Capital management

The Board seeks to build a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The Group manages its capital on both a short and long-term basis. In the short term the net cash position is monitored. This includes cash, cash equivalents, short-term deposits and debt. In the long term the Group monitors shareholders' funds plus debt. This information is provided to key management personnel and is consistent between the current and prior year.

The Group currently has a positive net cash position of £4.7m (2013: £17.6m) and continues to carry no debt; therefore, the long-term capital employed is equivalent to the shareholders' funds as at 31 December 2014 of £36.6m (2013: £51.0m).

As outlined in note 26 and the Directors' Remuneration Report, the Group has share incentive schemes to further align executive management's interests with those of the ordinary shareholders.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6 Operating segments

The Group is comprised of two reportable segments based on the destination of sales (North America and International) and they do not arise as a result of an aggregation process. Each segment offers similar products but they are managed separately on a geographical basis. The Group has not disclosed separate information about emerging revenue streams (Interactive Lesson Orchestration and Professional Development) referred to in the Strategic Report on page 6 as they do not meet the quantitative or qualitative criteria set out in IFRS 8 *Operating Segments*. The Board is the Chief Operating Decision Maker (CODM) and reviews internal management reports on these segments on a monthly basis. Performance by segment is managed and reviewed to gross profit. For internal reporting purposes, aside from trade receivables, no allocation is made between these segments for balances in the statement of financial position, as, regardless of an asset's geographical location, it could serve each business segment. Disclosures for segment performance are provided in the tables below and overleaf:

2014 Group	**North America £000**	**International £000**	**Total Group £000**
Revenue	**65,907**	**52,267**	**118,174**
Reportable segmental profit (gross profit)	**21,845**	**15,852**	**37,697**
Reportable segmental assets (trade receivables)	**9,223**	**8,318**	**17,541**

2013 Group	North America £000	International £000	Total Group £000
Revenue	69,094	72,064	141,158
Reportable segmental profit (gross profit)	27,659	22,927	50,586
Reportable segmental assets (trade receivables)	5,848	13,318	19,166

NOTES CONTINUED

(forming part of the financial statements)

6 Operating segments continued

Inter-segment trading

Inter-segment trading and profitability is not included in the information provided to the CODM and consequently has not been disclosed on the previous page. Revenue for each reportable segment reflects sales to external customers only. Reported segmental profits are adjusted for inter-segment profits and as such are stated using the costs to the Group rather than for each segment.

Reconciliation to loss before income tax

Group	2014 £000	2013 £000
Reportable segmental profit (gross profit)	**37,697**	50,586
Sales and marketing expenses	**(26,595)**	(28,326)
Administrative expenses	**(7,051)**	(7,836)
Research and development (net)	**(3,212)**	(5,017)
Adjusted EBITDA	**839**	9,407
Depreciation	**(2,515)**	(3,250)
Amortisation	**(5,419)**	(6,879)
Adjusted operating loss	**(7,095)**	(722)
Amortisation of acquired intangibles	**—**	(782)
Exceptional costs	**(1,932)**	(4,267)
Exceptional income	**1,451**	742
Share-based payments	**(326)**	(876)
Net finance expense	**(1,746)**	(801)
Loss before income tax	**(9,648)**	(6,706)

Reconciliation to total assets per statement of financial position

Group	2014 £000	2013 £000
Total assets for reportable segments	**17,541**	19,166
Unallocated amounts:		
All current assets excluding trade receivables	**23,165**	32,697
All non-current assets	**28,039**	30,286
Consolidated total assets	**68,745**	82,149

The only assets that the Group separately identifies by its segments are trade receivables. All other categories of asset and liability could serve each business segment and so are not allocated to a segment for the purposes of internal or statutory reporting.

Revenue by product

Group	2014 £000	2013 £000
Interactive display systems and accessories	**112,647**	132,072
Learner response systems and assessment	**5,527**	9,086
	118,174	141,158

6 Operating segments continued

Revenue by product continued

Interactive display systems and accessories revenue by segment

Group	2014 £000	2013 £000
North America	**61,901**	63,067
International	**50,746**	69,005
	112,647	132,072

Student response systems and assessment revenue by segment

Group	2014 £000	2013 £000
North America	**4,006**	6,027
International	**1,521**	3,059
	5,527	9,086

Revenue by country

	2014 £000	2013 £000
United States	**62,556**	65,533
United Kingdom (Company's country of domicile)	**11,903**	12,651
France	**3,939**	5,793
Germany	**3,832**	6,824
Russia	**3,639**	5,574
Vietnam	**3,093**	2,441
Canada	**3,049**	3,466
China	**3,018**	2,928
Italy	**2,619**	2,036
Netherlands	**2,317**	2,866
Other countries	**18,209**	31,046
	118,174	141,158

Major customers

For 2014, there were two customers (2013: none) who individually represented in excess of 10% of Group revenues for the year.

£24.8m of Group revenue (21%) was to a North American distributor and £18.0m (15%) to an International distributor.

Geographical locations

The analysis of non-current assets excluding derivatives and deferred tax, by geographical location, is identified below:

Non-current assets

Group	2014 £000	2013 £000
United Kingdom	**22,656**	18,447
France	**31**	22
Germany	**5**	3
United States	**1,496**	1,499
China	**1,487**	1,989
	25,675	21,960

NOTES CONTINUED
(forming part of the financial statements)

7 Revenue
Continuing operations

	2014 £000	2013 £000
Sales of goods	**115,062**	138,525
Services	**3,112**	2,633
	118,174	141,158

Services include maintenance and training.

8 Exceptional items
Exceptional costs

	2014 £000	2013 £000
Reorganisation costs	**1,932**	4,267
	1,932	4,267

Exceptional income

	2014 £000	2013 £000
Reversal of trade receivable impairment	**977**	674
Reversal of onerous lease provisions	**474**	—
Profit on disposal of tangible fixed assets	**—**	68
	1,451	742

Reorganisation costs
Reorganisation costs principally comprise the costs of substantial changes to the composition of the Executive Leadership Team, which include payments to a past Director, and the costs of a significant downsizing of the Seattle office in the United States. It also includes settlement costs in respect of the withdrawal of the Promethean KUNO tablet offering.

Impairment of trade receivables
An exceptional impairment loss was recognised in 2012 related to one specific reseller. At December 2014, management has reviewed the provision and concluded that a £1.0m reversal of the impairment was appropriate, based on funds recovered in the year.

Onerous lease provisions
The Group was able to reverse onerous lease provisions of approximately £0.5m following the successful sublet of one of its premises and from the finalisation of liabilities in a further two premises. The classification of the reversal as exceptional is consistent with the creation of the original provision.

Tax effect of exceptional items
The current tax expense resulting from current year exceptional items is £290,000 (2013: deferred tax credit of £1,015,000). This amount is included in the Group's income tax expense for the year.

Cash flow effect of exceptional items
The Statement of Cash Flows includes £2,130,000 of payments in respect of reorganisation costs (2013: £1,981,000) and income of £977,000 in respect of the reversal of trade receivable impairments.

9 Expenses and auditor's remuneration

Included in the loss for the year are the following:

Group	2014 £000	2013 £000
Reversal of exceptional impairment loss on trade receivables	**(977)**	(674)
Impairment loss on trade receivables	**286**	—
Reorganisation costs included in operating expenses	**1,932**	4,267
Research and development expensed as incurred	**3,212**	5,017
Auditor's remuneration:		
Audit of these financial statements	**5**	5
Amounts receivable by auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**183**	178
Total audit fees	**188**	183
Other services relating to taxation	**9**	26
All other services	**—**	3
Total auditor's remuneration	**197**	212

Operating expenses are analysed as follows:

Group	2014 £000	2013 £000
Sales and marketing	**26,595**	28,326
Administrative	**7,051**	7,836
Total research and development expenditure	**12,553**	13,089
Less: capitalised development expenditure	**(9,341)**	(8,072)
Research and development (net)	**3,212**	5,017
Depreciation	**2,515**	3,250
Amortisation	**5,419**	6,879
Amortisation of acquired intangible assets	**—**	782
Exceptional costs	**1,932**	4,267
Exceptional income	**(1,451)**	(742)
Share-based payments	**326**	876
	45,599	56,491

10 Personnel expenses

Group	2014 £000	2013 £000
Wages and salaries	**30,454**	33,337
Social security contributions	**2,955**	3,319
Contributions to defined contribution pension plans	**937**	985
Share-based payments	**326**	876
	34,672	38,517

Payments to Directors made in respect of qualifying services are as follows:

	2014 £000	2013 £000
Remuneration	**857**	1,202
Amounts received under long-term incentive schemes	**69**	106
Contributions to defined contribution pension plans	**35**	40
	961	1,348

In addition to the amounts noted above, a total of £274,000 was paid to Neil Johnson following his ceasing to be a Director. Pension contributions were made on behalf of three Directors (2013: two) into defined contribution pension schemes.

NOTES CONTINUED
(forming part of the financial statements)

10 Personnel expenses continued
The average number of persons employed by the Group during the year was:

	2014	2013
Production	**92**	109
Research and development	**112**	111
Selling and distribution	**354**	348
Administration	**113**	118
	671	686

11 Finance income and expense
Amounts recognised in profit or loss

Group	2014 £000	2013 £000
Interest income on bank deposits	**20**	48
Net change in fair value of financial assets at fair value through profit or loss	**—**	144
Finance income	**20**	192
Interest and commitment fee expense on bank facility	**(254)**	(208)
Amortisation of costs of obtaining bank facility	**(221)**	(252)
Foreign exchange losses	**(1,233)**	(533)
Net change in fair value of financial assets at fair value through profit or loss	**(58)**	—
Finance expense	**(1,766)**	(993)
Net finance expense recognised in profit or loss	**(1,746)**	(801)
The above financial income and expense includes the following in respect of assets/(liabilities) not at fair value through profit or loss:		
Total interest income on financial assets	**20**	48
Total interest expense on financial liabilities	**(475)**	(460)

Amounts recognised in other comprehensive income

Group	2014 £000	2013 £000
Foreign currency translation differences – foreign operations	**1,182**	291
Net gain/(loss) on net investments in foreign operations	**694**	(209)
	1,876	82

	2014 £000	2013 £000
Recognised in:		
Translation reserve (FCTR)	**1,876**	82
	1,876	82

12 Taxation

Amounts recognised in profit or loss

Group	2014 £000	2013 £000
Current tax expense		
Current period	**910**	1,112
Adjustment for prior periods	**51**	(717)
Current tax expense	**961**	395
Deferred tax expense		
Origination and reversal of temporary differences	**5,898**	(2,075)
Reduction in tax rates	**—**	626
Adjustments for prior periods	**(5)**	145
Deferred tax expense/(credit)	**5,893**	(1,304)
Total tax expense/(credit)	**6,854**	(909)

Amounts recognised directly in equity

Group	2014 £000	2013 £000
Share-based payments	**69**	79
	69	79

Reconciliation of effective tax rate

Group	2014 rate	2014 £000	2013 rate	2013 £000
Loss excluding income tax		**(9,648)**		(6,706)
Income tax credit using the Company's domestic tax rate	**21.5%**	**(2,074)**	23.3%	(1,560)
Effect of tax rates in foreign jurisdictions	**(1.6%)**	**153**	(6.5%)	434
Reduction in tax rate	**5.1%**	**(489)**	(15.3%)	1,025
Non-deductible expenses	**(0.5%)**	**48**	(5.1%)	344
Tax incentives	**1.1%**	**(109)**	1.7%	(113)
Change in recognised temporary differences	**(62.2%)**	**5,998**	0.0%	—
Change in unrecognised temporary differences	**(34.2%)**	**3,310**	6.0%	(404)
Utilisation of tax losses not previously recognised	**0.3%**	**(29)**	1.0%	(63)
Over provided in prior periods	**(0.5%)**	**46**	8.5%	(572)
Total income tax expense/(credit)	**(71.0%)**	**6,854**	13.6%	(909)

Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 24% to 23% (effective from 1 April 2013) and to 21% (effective 1 April 2014) were substantively enacted on 3 July 2012 and 2 July 2013 respectively. A further reduction to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013.

This will reduce the Company's future current tax charge accordingly. The deferred tax asset at the reporting date has been calculated based on the rates of 20% and 21% substantively enacted at this date.

NOTES CONTINUED

(forming part of the financial statements)

12 Taxation continued

Movement in recognised deferred tax balances

Group	Balance at 1 January 2013 £000	Recognised in profit or loss £000	Recognised directly in equity £000	Balance at 31 December 2013 £000	Recognised in profit or loss £000	Recognised directly in equity £000	**Balance at 31 December 2014 £000**
Property, plant and equipment	1,412	190	—	1,602	349	—	**1,951**
Intangible assets	(3,347)	2,060	—	(1,287)	(1,362)	—	**(2,649)**
Financial assets at fair value through profit or loss	(5)	(28)	—	(33)	12	—	**(21)**
Inventories	2,193	(1,448)	—	745	391	—	**1,136**
Lease rentals	45	9	—	54	(17)	—	**37**
Other items	1,253	112	(79)	1,286	326	(69)	**1,543**
Tax loss carry forwards	5,550	409	—	5,959	(5,592)	—	**367**
	7,101	1,304	(79)	8,326	(5,893)	(69)	**2,364**

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	**2014 £000**	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Property, plant and equipment	**2,338**	2,070	**(387)**	(468)	**1,951**	1,602
Intangible assets	**—**	—	**(2,649)**	(1,287)	**(2,649)**	(1,287)
Financial assets at fair value through profit or loss	**—**	—	**(21)**	(33)	**(21)**	(33)
Inventories	**1,136**	745	**—**	—	**1,136**	745
Lease rentals	**37**	54	**—**	—	**37**	54
Other items	**1,596**	1,552	**(53)**	(266)	**1,543**	1,286
Tax loss carry forwards	**367**	5,959	**—**	—	**367**	5,959
Tax assets/(liabilities)	**5,474**	10,380	**(3,110)**	(2,054)	**2,364**	8,326
Set off of tax	**(3,110)**	(2,054)	**3,110**	2,054	**—**	—
Net tax assets	**2,364**	8,326	**—**	—	**2,364**	8,326

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following deductible temporary differences and unused tax losses (stated gross):

Group	**2014 £000**	2013 £000
Tax losses	**47,411**	4,376
Deductible temporary differences	**2,238**	743
	49,649	5,119

The unrecognised deferred tax in respect of tax losses primarily relates to the Group's UK subsidiary. Neither the remaining tax losses nor the deductible temporary differences expire under current tax legislation.

In 2014, the Group has derecognised the brought forward deferred tax assets of £5,579,000 in respect of losses in its UK subsidiary. Following a review of forecasts, management have concluded that the UK subsidiary is not expected to utilise a significant amount of the tax losses in the short term, partly due to the availability of other reliefs, such as R&D tax credits.

At 31 December 2014 a deferred tax liability for temporary differences of £23,737,000 (2013: £21,458,000) relating to an investment in a subsidiary was not recognised (2013: £nil) because the Company controls whether the liability will be incurred and is satisfied that it will not be incurred in the foreseeable future.

The Group has no other unrecognised deferred tax assets or liabilities.

The Company has no unrecognised deferred tax assets or liabilities.

13 Dividends per ordinary share

The Directors did not pay an interim dividend (2013: £nil).

The Company is not in a position to pay a dividend (2013: £nil). The Board's focus is on continued investment in the Company's product portfolio and the rollout of ClassFlow™ software licences.

14 Property, plant and equipment

Group	Freehold land and buildings £000	Plant and equipment £000	Total £000
Cost			
Balance at 1 January 2013	4,148	24,041	28,189
Additions	50	1,202	1,252
Disposals	—	(989)	(989)
Effect of movements in exchange rates	(19)	5	(14)
Balance at 31 December 2013	4,179	24,259	28,438
Additions	114	2,171	2,285
Disposals	(193)	(5,444)	(5,637)
Effect of movements in exchange rates	57	377	434
Balance at 31 December 2014	**4,157**	**21,363**	**25,520**
Depreciation and impairment losses			
Balance at 1 January 2013	2,014	16,231	18,245
Depreciation for the year	234	3,016	3,250
Impairment loss	—	125	125
Disposals	—	(872)	(872)
Effect of movements in exchange rates	(12)	(39)	(51)
Balance at 31 December 2013	2,236	18,461	20,697
Depreciation for the year	229	2,286	2,515
Disposals	(193)	(5,300)	(5,493)
Effect of movements in exchange rates	30	237	267
Balance at 31 December 2014	**2,302**	**15,684**	**17,986**
Carrying amounts			
At 1 January 2013	2,134	7,810	9,944
At 31 December 2013	1,943	5,798	7,741
At 31 December 2014	**1,855**	**5,679**	**7,534**

The Company had no property, plant and equipment as at either 31 December 2014 or 31 December 2013.

Security

Assets with a value of £6.0m (2013: £5.8m) form part of the security against the bank facility as described in note 2(c).

NOTES CONTINUED
(forming part of the financial statements)

15 Intangible assets

Group	Goodwill £000	Development costs £000	Customer contracts £000	Total £000
Cost				
Balance at 1 January 2013	140,503	37,938	186	178,627
Additions arising from internal development	—	8,072	—	8,072
Effect of movements in exchange rates	—	(45)	(4)	(49)
Fully amortised assets	—	(2,817)	—	(2,817)
Balance at 31 December 2013	140,503	43,148	182	183,833
Additions arising from internal development	—	9,341	—	9,341
Effect of movements in exchange rates	—	143	11	154
Balance at 31 December 2014	**140,503**	**52,632**	**193**	**193,328**
Amortisation and impairment losses				
Balance at 1 January 2013	140,503	20,020	149	160,672
Impairment loss	—	4,142	—	4,142
Amortisation	—	7,624	37	7,661
Effect of movements in exchange rates	—	(40)	(4)	(44)
Fully amortised assets	—	(2,817)	—	(2,817)
Balance at 31 December 2013	140,503	28,929	182	169,614
Amortisation	—	5,419	—	5,419
Effect of movements in exchange rates	—	143	11	154
Balance at 31 December 2014	**140,503**	**34,491**	**193**	**175,187**
Carrying amounts				
At 1 January 2013	—	17,918	37	17,955
At 31 December 2013	—	14,219	—	14,219
At 31 December 2014	**—**	**18,141**	**—**	**18,141**

Significant intangible assets
The Group's most significant intangible assets, held within development costs, relate to two development projects; ClassFlow™ (net book value £9.0m) and its next generation interactive display (net book value £4.8m). Both assets have a remaining amortisation period of three years.

Categorisation of intangible assets
The carrying value of development costs at 31 December 2014 and 31 December 2013 all relate to internally generated assets. Assets in respect of customer contracts arose from a business combination.

Recoverability of development costs
Development costs are assessed for recoverability throughout the product lifecycle. This assessment involves consideration of ongoing commercial viability and forecast future cash flows. Future cash flows are discounted using an appropriate discount rate.

16 Investments
The Company has the following interests in subsidiary undertakings:

Company	**2014 £000**	2013 £000
At 1 January	**20,807**	19,941
Additions in respect of share-based payments	**305**	866
Net book value at 31 December	**21,112**	20,807

The undertakings in which the Company's interest at the period end is more than 20% are listed in note 31.

17 Derivative financial assets

Group	2014 £000	2013 £000
Current assets		
Financial assets designated at fair value through profit and loss	**105**	163
	105	163

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 27.

The Company had no derivative financial assets as at either 31 December 2014 or 31 December 2013.

18 Inventories

Group	2014 £000	2013 £000
Raw materials and consumables	**274**	348
Work in progress	**73**	85
Finished goods	**11,660**	8,237
	12,007	8,670

Inventories recognised as an expense during the year and included in cost of sales amounted to £61,362,000 (2013: £75,204,000).

An inventory provision is created against items where management believe that the carrying value exceeds its recoverable amount.

The finished goods inventory provision is calculated for each product with reference to the number of inventory days held. In addition, management conducts a further detailed review to ensure reasonableness (for example, to take into account recently introduced products and changes in product offering).

Inventory provision at 31 December 2014 was £1,609,000 (2013: £1,892,000).

Inventory provision of £58,000 was created in the year (2013: credit of £338,000) and £341,000 was utilised.

The Company does not hold any inventory.

19 Trade and other receivables

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Trade receivables	**17,541**	19,166	**—**	—
Other receivables	**2,614**	2,934	**—**	—
Prepayments	**2,517**	2,501	**607**	828
Amounts due from Group entities	**—**	—	**55,760**	55,760
	22,672	24,601	**56,367**	56,588
Non-current	**—**	—	**—**	—
Current	**22,672**	24,601	**56,367**	56,588
	22,672	24,601	**56,367**	56,588

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 27.

20 Cash and cash equivalents

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Bank balances	**4,706**	17,591	**5**	8
	4,706	17,591	**5**	8

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 27.

NOTES CONTINUED

(forming part of the financial statements)

21 Capital and reserves

Share capital

	Ordinary shares 2014	Ordinary shares 2013
In thousands of shares		
Share capital allotted and in issue at 1 January and 31 December	**203,200**	200,000

Kleinwort Benson (Jersey) Trustees Limited as trustees of the Chalkfree Employee Benefit Trust (EBT) hold shares on trust for the Company which are primarily issued to employees to satisfy the Company's obligations in relation to its share schemes. These shares are categorised as Treasury Shares and are excluded from the calculation of Earnings Per Share (see note 22). At 31 December 2014, the EBT held 1,489,769 shares in the Company (2013: 342,245 shares).

On 25 March 2014, the Company allotted and issued 3,200,000 ordinary shares of 10 pence each to the Company's Employee Benefit Trust, to satisfy the Company's obligation to transfer ordinary shares to employees following the anticipated exercise of future share options and vesting of conditional share awards (2013: nil). During the year, no shares (2013: nil) were repurchased and subsequently cancelled.

Share incentive schemes

Details of share incentive schemes in existence at 31 December 2014 are disclosed in note 26.

Capital reserve

The capital reserve arose as a result of the Group reorganisation in 2010, where Promethean World Plc acquired the entire ordinary share capital of Chalkfree Limited by share for share exchange.

Translation reserve (FCTR)

The FCTR comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of assets relating to the Company's net investment in foreign subsidiaries.

22 Earnings per share

Basic earnings per share

The calculation of basic earnings per share is based on the loss attributable to ordinary shareholders as disclosed below and a weighted average number of ordinary shares outstanding, calculated as follows:

Loss attributable to ordinary shareholders

	2014 £000	2013 £000
Loss for the year attributable to ordinary shareholders	**(16,502)**	(5,797)

Weighted average number of ordinary shares

	2014	2013
In thousands of shares		
Issued ordinary shares at 1 January	**200,000**	200,000
Effect of ordinary shares issued in the year	**2,464**	—
Effect of treasury shares held	**(1,785)**	(496)
Effect of dilutive vested share options not yet exercised	**1,390**	1,103
Weighted average number of ordinary shares at 31 December	**202,069**	200,607
Basic loss per share (pence)	**(8.17)**	(2.89)

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2014 was based on loss attributable to ordinary shareholders as disclosed below and a weighted average number of ordinary shares outstanding calculated as follows:

Group	2014 £000	2013 £000
Loss attributable to ordinary shareholders (basic and diluted)	**(16,502)**	(5,797)

22 Earnings per share continued

Weighted average number of shares

	2014	2013
In thousands of shares		
Weighted average number of shares (basic)	**202,069**	200,607
Effect of conversion of Promethean World Plc share options	**—**	—
Weighted average number of shares (diluted)	**202,069**	200,607
Diluted loss per share (pence)	**(8.17)**	(2.89)

Details of share options granted during the period can be found in note 26.

No adjustment has been made in both 2014 and 2013 to the weighted average number of shares for the purpose of the diluted earnings per share calculation as the effect would be anti-dilutive.

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

23 Trade and other payables

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Current				
Trade payables	**16,546**	9,847	**—**	—
Accrued expenses	**5,166**	9,292	**—**	—
Deferred revenue	**6,407**	6,798	**—**	—
Other payables due to Group companies	**—**	—	**16,161**	16,161
	28,119	25,937	**16,161**	16,161

24 Provisions

Group	As at 1 January 2014 £000	Created in the year £000	Reversed in the year £000	Utilised in the year £000	As at 31 December 2014 £000	Current £000	Non-current £000
Warranty	2,927	999	—	(1,121)	**2,805**	2,805	—
Reorganisation provisions							
Restructuring	178	66	—	(172)	**72**	72	—
Onerous lease	1,315	—	(474)	(380)	**461**	236	225
Provisions	4,420	1,065	(474)	(1,673)	**3,338**	3,113	225

Warranty

The warranty provision is calculated by estimating the possible failure rates of the Group's hardware, with the exception of projectors which are covered by a third party warranty. The length of warranty period varies dependent on both the product and country it is sold to; this period can vary between one and five years.

The timing and frequency of product failures are inherently uncertain and for this reason the warranty provision has been disclosed as current.

Onerous lease

The onerous lease provision arises from the exit of certain of the Group's premises in previous years. The Group was able to reverse onerous lease provisions of approximately £0.5m following the successful sub-let of one of its premises and from the finalisation of liabilities in a further two premises.

Approximate outflows from the remaining onerous leases are £0.2m in 2015 and £0.2m in 2016.

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25 Employee benefits

The Group contributes to a number of defined contribution pension schemes providing benefits based upon the contributions made. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension charge for the year represents contributions payable by the Group to the schemes and amounted to £937,000 (2013: £985,000). There were no outstanding or prepaid contributions at either the beginning or end of each financial year.

26 Share-based payments

Description of share schemes

The Group has in place the following Long Term Incentive Plans (LTIPs):

Share option schemes:

→ Chalkfree Limited Unapproved Company Share Option Plan (Chalkfree CSOP);

→ IPO Option Plan (IPO Plan);

→ Promethean Company Share Option Plan 2010 (PRW CSOP); and

→ Promethean Performance Share Plan 2011 (PSP).

Share award scheme:

→ Performance Share Awards (PSA).

A summary of each of these LTIP schemes is provided below. Only the PRW CSOP and the PSP are now available for the grant of further awards to employees. The remaining arrangements relate to either pre-IPO awards or, in the case of the IPO Plan, awards made in connection with the IPO, and no further awards will be made under these arrangements.

Share option schemes

Chalkfree Limited Unapproved Company Share Option Plan (Chalkfree CSOP)

Vesting of the 2009 and 2010 Chalkfree CSOP options is now complete in accordance with their terms. Unvested options lapse ten years from the date of grant and will only become exercisable on a change of control (subject to continuing employment).

IPO Option Plan (IPO Plan)

The IPO Plan provided for a one-off grant, to eligible employees, of options to acquire shares in the Company at a nil exercise price. IPO Plan options are now fully vested and remain exercisable for up to five years from the date of admission (17 March 2010) subject to continuing employment and will then lapse.

Promethean Company Share Option Plan 2010 (PRW CSOP)

The PRW CSOP provides for the grant, to eligible employees, of options to acquire shares in the Company at an exercise price which may not be less than the market value of a share on the date of grant (or economically equivalent rights in jurisdictions in which for legal, regulatory or tax reasons this is more appropriate). All employees (including Executive Directors) of the Group are eligible to participate in the PRW CSOP at the discretion of the Remuneration Committee. More details of the PRW CSOP are included in the Directors' Remuneration Report on pages 40 to 60.

Promethean Performance Share Plan 2011 (PSP)

The PSP provides for the grant, to eligible employees, of options to acquire shares in Promethean World Plc normally at a nil or nominal exercise price (or economically equivalent rights in jurisdictions in which for legal, regulatory or tax reasons this is more appropriate). PSP awards will normally be exercisable from vesting to the tenth anniversary of grant and will then lapse. Incorporated in the PSP, the Stock Appreciation Rights Sub-Plan (PSP SARs) provides for the grant of awards, in the form of options, to eligible employees. The award price must not be less than the market value of a share on the date of the grant. The exercise of the award will normally be satisfied by the transfer of a number of ordinary shares of a value equal to the gain on the award price as at the date of exercise of the award, subject to a cap of 75% of the number of shares under the award. PSP SARS awards will normally be exercisable from vesting to the fifth anniversary of grant and will then lapse.

All employees (including Executive Directors) of the Group are eligible to participate in the PSP at the discretion of the Remuneration Committee. More details of the PSP are included in the Directors' Remuneration Report on pages 40 to 60.

26 Share-based payments continued

Description of share-based payments

On 8 May 2014, 90,000 options were granted under the PRW CSOP with an exercise price of 32.125p per share.

On 10 September 2014, 1,330,000 nil cost options were granted under the PSP.

On 10 September 2014, 8,370,000 equity settled and 804,500 cash settled options were granted under the PSP SARs with an exercise price of 31.25p per share.

On 7 November 2014, 1,355,000 equity settled and 85,000 cash settled options were granted under the PSP SARs with an exercise price of 27p per share.

As at 31 December 2014, the number of unexercised options was as follows:

Grant date[1]	Employees entitled	Number of instruments – equity settled (000s)	Number of instruments – cash settled (000s)	Contractual life of options[2]
7 August 2009 (2009 Chalkfree CSOP)	Key employees	264	—	10 years
7 August 2009 (2010 Chalkfree CSOP)	Key employees	370	—	10 years
24 November 2009 (2009 Chalkfree CSOP)	Key employees	—	—	10 years
24 November 2009 (2010 Chalkfree CSOP)	Key employees	44	—	10 years
14 April 2010 (IPO Plan)	Staff[3]	46	15	5 years
30 September 2010 (PRW CSOP)	Key employees	34	—	10 years
29 July 2011 (PSP)	Key employees[4,5]	689	—	10 years
29 July 2011 (PRW CSOP)	Key employees[4,5]	677	90	10 years
26 March 2012 (PSP) deferred bonus awards	SMT[6]	3	—	10 years
30 April 2012 (PSP)	Key employees[4,5]	1,070	50	10 years
30 April 2012 (PRW CSOP)	Key employees	70	—	10 years
31 October 2012 (PSP)	Key employees[4,5]	1,570	—	10 years
31 October 2012 (PRW CSOP)	Key employees	170	—	10 years
19 December 2012 (PRW CSOP)	Key employees	—	—	10 years
26 March 2013 (PSP)	Key employees[4,5]	1,204	40	10 years
26 March 2013 (PRW CSOP)	Key employees	90	—	10 years
28 June 2013 (PSP)	Key employees[4]	217	—	10 years
28 June 2013 (PRW CSOP)	Key employees	180	—	10 years
8 May 2014 (PRW CSOP)	Key employees	90	—	10 years
10 September 2014 (PSP)	Executive Directors	1,330	—	10 years
10 September 2014 (PSP SARs)	Key employees	8,370	805	5 years
7 November 2014 (PSP SARs)	Key employees	1,355	85	5 years
		17,843	1,085	

1. The grant dates listed are the execution dates that the terms of the grants were communicated to employees.
2. In the case of the IPO Plan the expiry date is five years from the date of the Company's admission to the London Stock Exchange. The options may lapse in the event of an employee leaving the business.
3. Employees, subject to service conditions, not included in other share incentive schemes at IPO.
4. A shorter contractual period applies to certain awards held by US participants, due to local tax implications.
5. Including Executive Directors as disclosed in the Directors' Remuneration Report.
6. Certain members of the SMT in respect of partial 2011 bonus deferral.

Terms and conditions of the share option programme

The terms and conditions of the Chalkfree CSOP options and IPO Plan options are disclosed on page 98.

The PSP options granted in 2012, 2013 and 2014 to Jim Marshall, Ian Baxter, Neil Johnson and other SMT members are subject to performance conditions, as set out in more detail in the Directors' Remuneration Report, in respect of awards held by Executive Directors. The awards will not typically be capable of vesting before the third anniversary of the date of grant. The PSP options granted in 2011 have vested.

Deferred bonus awards were made under the PSP to certain members of the SMT in 2012. These were subject to performance conditions and vested on a time basis over two years from the date of grant. Additional PSP options granted to other employees are not subject to performance conditions and vest on a time basis over three years from the date of grant. PSP SARs vest over three years from the date of grant, with half of the vesting subject to performance conditions.

The PRW CSOP share options granted to Jim Marshall, Neil Johnson and other SMT members in 2011 will vest subject to the conditions set out in detail in the Directors' Remuneration Report. The PRW CSOP options granted to other employees were granted as new joiner awards and will vest on the third anniversary of the date of grant, subject only to continuing employment.

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26 Share-based payments continued

Inputs for measurement of grant date fair values

The grant date fair values of the share options are measured based on the Black-Scholes model. The expected volatility has been calculated based on the median of the Company's comparator group's historical share price volatility over a period broadly comparable with the expected life of options.

The inputs used in measuring the fair value of the share option grants in 2014 were as follows:

	PRW CSOP (granted 08.05.14)	PSP (granted 10.09.14)	PSP SARS (granted 10.09.14)	PSP SARS (granted 07.11.14)
Fair value at grant date (pence)	**18.80**	**22.00**	**14.50**	**11.50**
Share price at grant date (pence)	**32.00**	**32.00**	**32.00**	**27.00**
Exercise price (pence)	**32.13**	**nil**	**31.25**	**27.00**
Expected volatility	**60%**	**66%**	**66%**	**64%**
Option life (expected)	**6.5 years**	**3.0 years**	**4.0 years**	**4.0 years**
Dividend yield	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Risk-free interest rate	**2.25%**	**1.22%**	**1.52%**	**1.31%**

The inputs used in measuring the fair value of the share option grants in 2013 were as follows:

	PSP (granted 26.03.13)	PRW CSOP (granted 26.03.13)	PSP (granted 28.06.13)	PRW CSOP (granted 28.06.13)
Fair value at grant date (pence)	16.00	9.10	13.00	7.60
Share price at grant date (pence)	16.00	16.00	13.00	13.00
Exercise price (pence)	nil	16.25	nil	13.00
Expected volatility	60%	60%	60%	60%
Option life (expected)	3.0 years	6.5 years	3.0 years	6.5 years
Dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	—	1.16%	—	1.83%

Income statement charge

The share-based payment charge for the year was £326,000 (2013: £876,000) comprising £305,000 (2013: £866,000) in respect of equity settled awards and £21,000 (2013: £10,000) in respect of cash settled awards.

26 Share-based payments continued

Disclosure of movements in share options

The number and weighted average exercise prices of equity settled share options for the current and prior year are as follows:

	Options in issue as at 1 January 2014 (000s)	Granted in the year (000s)	Exercised in the year (000s)	Lapsed in the year (000s)	**Options in issue as at 31 December 2014 (000s)**	Exercisable as at 31 December 2014 (000s)	Option price per share (pence)	Weighted average share price at date of exercise (pence)	Weighted average contractual life remaining (years)
2009 Chalkfree CSOP	364	—	(77)	(23)	**264**	264	5.25	31.6	4.7
2010 Chalkfree CSOP	523	—	(88)	(21)	**414**	414	5.25	31.4	4.7
IPO Plan	89	—	(28)	(15)	**46**	46	—	30.5	0.4
PRW CSOP 2010	43	—	—	(9)	**34**	34	125.00	n/a	3.0
PSP 2011	1,903	—	(912)	(302)	**689**	689	—	30.2	6.6
PRW CSOP 2011	1,692	—	—	(1,015)	**677**	205	59.75	n/a	6.6
PSP 2012 deferred SMT bonus	39	—	(36)	—	**3**	3	—	29.8	7.2
PSP April 2012	1,852	—	(502)	(280)	**1,070**	175	—	30.4	6.8
PSP October 2012	1,570	—	—	—	**1,570**	—	—	n/a	7.1
PRW CSOP April 2012	120	—	—	(50)	**70**	—	51.63	n/a	7.3
PRW CSOP October 2012	220	—	—	(50)	**170**	—	17.37	n/a	7.8
PSP March 2013	2,040	—	(336)	(500)	**1,204**	133	—	31.0	8.2
PSP June 2013	290	—	(73)	—	**217**	—	—	31.8	8.5
PRW CSOP March 2013	90	—	—	—	**90**	—	16.25	n/a	8.2
PRW CSOP June 2013	180	—	—	—	**180**	—	12.88	n/a	8.5
PRW CSOP May 2014	—	90	—	—	**90**	—	32.13	n/a	9.4
PSP 2014	—	1,330	—	—	**1,330**	—		n/a	9.7
PSP SARs September 2014	—	8,370	—	—	**8,370**	—	31.25	n/a	4.7
PSP SARs November 2014	—	1,355	—	—	**1,355**	—	27.00	n/a	4.9
Total options	11,015	11,145	(2,052)	(2,265)	**17,843**	1,963	n/a	30.7	5.3

	Options in issue as at 1 January 2013 (000s)	Granted in the year (000s)	Exercised in the year (000s)	Lapsed in the year (000s)	Options in issue as at 31 December 2013 (000s)	Exercisable as at 31 December 2013 (000s)	Option price per share (pence)	Weighted average share price at date of exercise (pence)	Weighted average contractual life remaining (years)
2009 Chalkfree CSOP	506	—	(9)	(133)	364	364	5.25	27.1	4.2
2010 Chalkfree CSOP	769	—	(25)	(221)	523	523	5.25	27.1	4.8
IPO Plan	119	—	(14)	(16)	89	89	—	21.0	1.2
PRW CSOP 2010	43	—	—	—	43	43	125.00	n/a	6.8
PSP 2011	2,580	—	(411)	(266)	1,903	356	—	15.8	7.2
PRW CSOP 2011	1,692	—	—	—	1,692	—	59.75	n/a	7.6
PSP 2012 deferred SMT bonus	48	—	(9)	—	39	20	—	17.8	7.4
PSP April 2012	2,116	—	(76)	(188)	1,852	115	—	17.3	8.3
PSP October 2012	1,570	—	—	—	1,570	—	—	n/a	8.8
PRW CSOP April 2012	200	—	—	(80)	120	—	51.63	n/a	8.3
PRW CSOP October 2012	335	—	—	(115)	220	—	17.37	n/a	8.8
PRW CSOP December 2012	50	—	—	(50)	—	—	15.25	n/a	8.9
PSP March 2013	—	2,100	—	(60)	2,040	—	—	n/a	9.3
PSP June 2013	—	290	—	—	290	—	—	n/a	9.5
PRW CSOP March 2013	—	90	—	—	90	—	16.25	n/a	9.3
PRW CSOP June 2013	—	180	—	—	180	—	12.88	n/a	9.5
Total options	10,028	2,660	(544)	(1,129)	11,015	1,510	n/a	16.9	7.8

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(forming part of the financial statements)

26 Share-based payments continued

Cash settled

The number and weighted average exercise prices of cash-settled share options for the current and prior period are as follows:

	Options in issue as at 1 January 2014 (000s)	Granted in the year (000s)	Exercised in the year (000s)	Lapsed in the year (000s)	**Options in issue as at 31 December 2014 (000s)**	Exercisable as at 31 December 2014 (000s)	Option price per share (pence)	Weighted average share price at date of exercise (pence)	Weighted average contractual life remaining (years)
2009 Chalkfree CSOP	1	—	(1)	—	**—**	—	5.25	38.4	n/a
2010 Chalkfree CSOP	5	—	(5)	—	**—**	—	5.25	29.9	n/a
IPO Plan	17	—	(1)	(1)	**15**	15	—	31.2	0.4
PSP 2011	30	—	(30)	—	**—**	—	—	23.7	n/a
PRW CSOP 2011	90	—	—	—	**90**	90	59.75	n/a	6.6
PSP 2012 April	80	—	(15)	(15)	**50**	25	—	23.7	7.3
PSP 2013 March	60	—	(5)	(15)	**40**	10	—	23.7	8.2
SARs 2014 September	—	805	—	—	**805**	—	31.25	n/a	4.7
SARs 2014 November	—	85	—	—	**85**	—	27.00	n/a	4.9
	283	890	(57)	(31)	**1,085**	140	n/a	24.7	5.1

	Options in issue as at 1 January 2013 (000s)	Granted in the year (000s)	Exercised in the year (000s)	Lapsed in the year (000s)	Options in issue as at 31 December 2013 (000s)	Exercisable as at 31 December 2013 (000s)	Option price per share (pence)	Weighted average share price at date of exercise (pence)	Weighted average contractual life remaining (years)
2009 Chalkfree CSOP	7	—	(6)	—	1	1	5.25	13.9	6.2
2010 Chalkfree CSOP	10	—	(5)	—	5	5	5.25	13.9	6.2
IPO Plan	26	—	—	(9)	17	17	—	n/a	1.4
PSP 2011	55	—	(6)	(19)	30	15	—	16.5	7.6
PRW CSOP 2011	90	—	—	—	90	—	59.75	n/a	7.6
PSP 2012 April	90	—	—	(10)	80	20	—	n/a	8.3
PSP 2013 March	—	60	—	—	60	—	—	n/a	9.2
	278	60	(17)	(38)	283	58	n/a	14.8	7.7

Share award schemes

Performance Share Awards (PSA)

In August 2009, certain senior employees subscribed for awards of ordinary shares in Chalkfree Limited at 10p per share (post IPO these are now shares in the Company at 5.25p per share). These awards are now vested in full.

Fair value

The awards were settled at fair value and all awards were subscribed and settled in full at the date of grant.

In the opinion of the Directors, the share price at the date of grant was no more than par value, therefore no IFRS 2 *Share-based Payment* charge had been reflected in the income statement.

27 Financial instruments

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

Group	2014 Carrying amount £000	2014 Fair value £000	2013 Carrying amount £000	2013 Fair value £000
Trade receivables	**17,541**	**17,541**	19,166	19,166
Other receivables	**2,614**	**2,614**	2,934	2,934
Cash and cash equivalents	**4,706**	**4,706**	17,591	17,591
Forward exchange contracts – assets	**105**	**105**	163	163
Trade payables	**(16,546)**	**(16,546)**	(9,847)	(9,847)
	8,420	**8,420**	30,007	30,007

The basis for determining fair values is disclosed in note 4.

Fair value hierarchy

The Group classifies the methodology by which it fair values its financial instruments as one of the following different levels:

→ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

→ Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

→ Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All the Group's financial instruments at fair value are valued in accordance with the Level 2 methodology.

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was:

	Group 2014 £000	Group 2013 £000
Financial assets at fair value through profit or loss	**105**	163
Trade receivables	**17,541**	19,166
Other receivables	**2,614**	2,934
Cash and cash equivalents	**4,706**	17,591
	24,966	39,854

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(forming part of the financial statements)

27 Financial instruments continued

Credit risk continued

Exposure to credit risk continued

The Company had no financial assets exposed to credit risk at either 31 December 2014 or 31 December 2013.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Group	2014 £000	2013 £000
North America	**9,223**	5,848
International	**8,318**	13,318
	17,541	19,166

The maximum exposure to credit risk for trade receivables at the reporting date by type of counterparty was:

Group	2014 £000	2013 £000
Wholesale customers	**17,202**	18,881
Local authorities/schools and colleges	**339**	285
	17,541	19,166

Impairment losses

The ageing of trade receivables that were not impaired at the reporting date was as follows:

Group	2014 £000	2013 £000
Not past due	**16,156**	16,555
Past due 1–30 days	**1,054**	1,722
Past due 31–120 days	**146**	69
Past due more than 120 days	**185**	820
	17,541	19,166

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

Group	2014 £000	2013 £000
Balance at 1 January	**3,347**	4,034
Impairment loss recognised	**286**	—
Exceptional impairment loss reversed	**(977)**	(674)
Amounts written off	**(363)**	(13)
Balance at 31 December	**2,293**	3,347

As outlined in note 5, the Group manages credit risk by allocating customers a credit limit and ensuring the Group's exposure is within this limit. This approach is strengthened with the use of credit insurance when management considers it to be appropriate. The credit insurance policy does not require any collateral to be held as security. Accordingly, management considers the current level of impairment provision in respect of trade receivables appropriate. The exceptional impairment reversal of £1.0m (2013: £0.7m) relates to a provision created in 2012 of £3.1m relating to one specific reseller. The partial reversal is deemed appropriate by management based on funds recovered during the period.

27 Financial instruments continued

Liquidity risk

The Group's objectives, policies and procedures with respect to liquidity risk are outlined in note 5. The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

2014 Group	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6–12 months £000	1–2 years £000	2–5 years £000	More than 5 years £000
Non-derivative financial liabilities							
Trade payables	16,546	16,546	16,546	—	—	—	—
	16,546	**16,546**	**16,546**	**—**	**—**	**—**	**—**

2013 Group	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6–12 months £000	1–2 years £000	2–5 years £000	More than 5 years £000
Non-derivative financial liabilities							
Trade payables	9,847	9,847	9,847	—	—	—	—
	9,847	9,847	9,847	—	—	—	—

At both 31 December 2014 and 31 December 2013, no derivatives were designated as cash flow hedges.

At both 31 December 2014 and 31 December 2013, the Company had no trade and other payables.

Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk in respect of the current assets and liabilities per the Statement of Financial Position and forward foreign exchange contracts was as follows, based on notional amounts (all amounts are expressed in thousands):

	2014				2013			
Group	**GBP**	**USD**	**EUR**	**CNY**	GBP	USD	EUR	CNY
Trade receivables	**1,261**	**18,539**	**5,555**	**—**	1,784	17,132	7,012	11,502
Trade payables	**(1,150)**	**(17,796)**	**(248)**	**(35,808)**	(1,564)	(10,646)	(54)	(17,970)
Gross statement of financial position exposure	**111**	**743**	**5,307**	**(35,808)**	220	6,486	6,958	(6,468)
Forward exchange contracts buy/(sell)	**4,389**	**—**	**(5,500)**	**—**	9,750	—	(11,500)	—
Net exposure	**4,500**	**743**	**(193)**	**(35,808)**	9,970	6,486	(4,542)	(6,468)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2014	2013	**2014**	2013
USD	**1.6528**	1.5580	**1.5534**	1.6491
EUR	**1.2508**	1.1790	**1.2780**	1.1979
CNY	**10.0215**	9.7084	**9.5590**	10.0827

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(forming part of the financial statements)

27 Financial instruments continued

Currency risk continued

Sensitivity analysis

The table below details the Group's sensitivity to a 10% strengthening in GBP against the relevant foreign currencies. A 10% sensitivity has been used in 2014 and 2013 as it is considered a reasonable approximation of the range in which GBP may fluctuate against the USD and Euro.

The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis also includes the impact on the Group results of translating the closing net assets of foreign entities with a 10% movement in foreign currency rates and a 5% (average) movement on their earnings. The calculation also takes account of the effect on foreign currency revenues, purchases, assets and liabilities of the Group's UK legal entities.

This analysis assumes that all other variables, in particular interest rates, remain constant.

Group	Equity £000	Profit/(loss) £000
31 December 2014		
USD	**(914)**	**1,164**
EUR	**(683)**	**(434)**
CNY	**(2,224)**	**(48)**
31 December 2013		
USD	(4,160)	(982)
EUR	(943)	(629)
CNY	(2,017)	(74)

A 10% weakening of GBP against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk, as the year-end exposure does not reflect the exposure during the year. USD and Euro denominated sales are seasonal which results in a reduction in USD and Euro receivables at the year end.

Interest rate risk

At 31 December 2014 and 31 December 2013, the Group had no drawn interest-bearing financial liabilities.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model.

No further interest rate hedging arrangements have been entered into during either 2014 or 2013.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
Group	100 bp increase £000	100 bp decrease £000	100 bp increase £000	100 bp decrease £000
2014				
Variable rate instruments	**47**	**(13)**	**47**	**(13)**
Cash flow sensitivity (net)	**47**	**(13)**	**47**	**(13)**
2013				
Variable rate instruments	176	(81)	176	(81)
Cash flow sensitivity (net)	176	(81)	176	(81)

28 Operating leases

The total remaining rentals payable under non-cancellable operating leases are as follows:

Group	2014 £000	2013 £000
In less than one year	**1,947**	1,929
Between one and five years	**2,993**	2,399
In more than five years	**—**	139
	4,940	4,467

Operating lease rentals expensed in the Consolidated Statement of Comprehensive Income were as follows:

Group	2014 £000	2013 £000
Operating lease charge	**1,859**	2,099

The Group has operating lease contracts in place for buildings, equipment hire and vehicles.

The buildings leases cover many of the sites in the UK and also business premises in the US, China, France and Germany and sales offices in Bahrain and Singapore. The durations of these leases do not exceed ten years.

Operating leases in respect of vehicles generally have a three-year term.

Operating lease terms in respect of equipment typically range between three and five years.

The operating lease commitments disclosed above include those provided through the onerous lease provision (see note 24).

The Company does not hold any operating leases.

29 Capital commitments

At 31 December 2014, the Group had capital commitments of £110,000 (2013: £310,000). These commitments are expected to be settled in the following financial year.

The Company had no capital commitments as at either 31 December 2014 or 31 December 2013.

30 Related parties

Transactions with key management personnel

Loans to Directors

At 31 December 2014 and 31 December 2013, there were no loans outstanding to Directors.

Key management personnel compensation

In addition to their salaries, the Group also provides non-cash benefits to Directors and Executive Officers and contributes to a post-employment defined contribution pension plan on their behalf.

Key management personnel compensation comprised:

Group	2014 £000	2013 £000
Short-term employee benefits	**2,680**	3,482
Post-employment benefits	**126**	146
Termination benefits	**587**	—
Share-based payments	**136**	621
	3,529	4,249

During the year, the Group implemented a number of changes within the senior leadership team. Key management personnel now includes both executive and non-executive Board members and members of the Executive Leadership Team. During the year seven new members were appointed and five members left the business.

The key management compensation disclosed above includes Tony Cann's fees for his services as a Non-Executive Director up to his ceasing to be a Director on 8 May 2014. With effect from 8 May 2014, Tony Cann has been employed by Promethean Limited to advise in relation to product development matters. He receives a salary of £38,000 per annum for his work in this capacity and these emoluments are not included in the above table.

As at 31 December 2014, there were 17 key management team members (2013: 16).

NOTES CONTINUED
(forming part of the financial statements)

30 Related parties continued

Transactions with key management personnel continued

Key management personnel and Director transactions

Certain Directors, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with Directors and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to these related party transactions were as follows:

Group	Transaction value sale/(purchase) Year ended 2014 £000	Year ended 2013 £000	Balance outstanding debtor/(creditor) Year ended 2014 £000	Year ended 2013 £000
Whitebirk Finance Limited	**(120)**	(120)	**(40)**	(70)

Whitebirk Finance Limited, a company owned by Tony Cann, owns and leases Promethean House to the Group.

Other Group related-party transactions

In the ordinary course of business, goods are manufactured by our Chinese subsidiary and supplied to the UK for sale to either the Group's sales and distribution offices in the US, France and Germany or directly to external customers. All transactions and outstanding balances with these related parties are priced on an arm's length basis and are to be settled in the ordinary course of business. None of the balances are secured.

Company-related party transactions

The Company transacts and has outstanding balances with certain of its subsidiaries. Amounts due from subsidiaries and amounts due to subsidiaries are disclosed in the notes to the financial statements.

No interest is charged on amounts due from Group entities.

No dividends were received from subsidiaries in the year (2013: £nil).

31 Group entities

Significant subsidiaries as at 31 December 2014

Subsidiary undertaking	Country of registration	Principal activity	Class and percentage of shares held
Chalkfree Limited	England and Wales	Holding company	Ordinary £0.10 shares 100%
Promethean (Holdings) Limited	England and Wales	Holding company	Ordinary £1 shares 100%
Promethean Limited	England and Wales	Distributor of electronic equipment	Ordinary £1 shares 100%
Promethean GmbH	Germany	Distributor of electronic equipment	Ordinary €1 shares 100%
Promethean SAS	France	Distributor of electronic equipment	Ordinary €1,193 shares 100%
Promethean Inc.	USA	Distributor of electronic equipment	Ordinary $0.01 shares 100%
Promethean Technology (Shenzhen) Limited	China	Manufacturer and distributor of electronic equipment	Ordinary shares 100%
Promethean World Inc.[1]	USA	Non-trading	Ordinary $0.001 shares 100%
Promethean Technology Limited[1] (formerly Promethean World Limited)	England and Wales	Non-trading	Ordinary £1 shares 100%

1. Dormant companies.

With the exception of Chalkfree Limited, all of the above are indirect holdings.

All of the above undertakings are included within the consolidated results.

2. LATEST PUBLISHED FINANCIAL INFORMATION OF THE PROMETHEAN GROUP

The following is the unaudited consolidated financial information of the Promethean Group for the six months ended 30 June 2015, which is extracted from Promethean's announcement of its interim results for the six months ended 30 June 2015 dated 13 August 2015 published on the website of Promethean at http://www.prometheanworld.com/. Unless otherwise specified, capitalised terms used in this section shall have the same meaning as adopted in the said announcement.

A. Condensed consolidated statement of financial position

As at

	Note	**30 June 2015 (Unaudited)** *£000*	**30 June 2014 (Unaudited)** *£000*	**31 December 2014 (Audited)** *£000*
Assets				
Property, plant and equipment		6,723	7,564	7,534
Intangible assets	10	21,524	15,728	18,141
Deferred tax assets		2,326	10,030	2,364
Total non-current assets		30,573	33,322	28,039
Inventories		13,605	10,707	12,007
Derivative financial instruments		187	216	105
Trade and other receivables		27,801	27,597	22,672
Current tax assets		1,004	832	1,216
Cash and cash equivalents		1,572	9,162	4,706
Total current assets		44,169	48,514	40,706
Total assets		74,742	81,836	68,745

	Note	30 June 2015 (Unaudited) £000	30 June 2014 (Unaudited) £000	31 December 2014 (Audited) £000
Liabilities				
Trade and other payables		(34,031)	(31,523)	(28,119)
Loans and borrowings	11	(7,592)	—	—
Provisions		(2,784)	(3,667)	(3,113)
Current tax liabilities		(757)	(861)	(665)
Total current liabilities		(45,164)	(36,051)	(31,897)
Provisions		(219)	(321)	(225)
Total non-current liabilities		(219)	(321)	(225)
Total liabilities		(45,383)	(36,372)	(32,122)
Net assets		29,359	45,464	36,623
Equity				
Share capital		20,320	20,320	20,320
Share premium		99,796	99,796	99,796
Capital reserve		93,990	93,990	93,990
Translation reserve (FCTR)		5,461	2,760	6,010
Retained earnings		(190,208)	(171,402)	(183,493)
Total equity (all attributable to equity holders of the Company)		29,359	45,464	36,623

B. Condensed consolidated statement of profit or loss

For the period ended

	Note	6 months to 30 June 2015 (Unaudited) £000	6 months to 30 June 2014 (Unaudited) £000	Year ended 31 December 2014 (Audited) £000
Revenue	5	52,805	57,690	118,174
Cost of sales		(38,085)	(39,669)	(80,477)
Gross profit	5	14,720	18,021	37,697
Operating expenses		(21,930)	(24,467)	(45,599)
Analysis of results from operating activities:				
(Loss)/earnings before interest, tax, depreciation, amortisation, exceptional costs and share-based payments		(4,274)	(1,691)	839
Depreciation and amortisation		(3,059)	(4,013)	(7,934)
Exceptional costs	6	—	(1,138)	(1,932)
Exceptional income	6	552	587	1,451
Share-based payments	13	(429)	(191)	(326)
Results from operating activities		(7,210)	(6,446)	(7,902)
Finance income	7	699	1,044	20
Finance expense	7	(464)	(236)	(1,766)
Net finance income/(expense)		235	808	(1,746)
Loss before income tax		(6,975)	(5,638)	(9,648)
Income tax (expense)/credit	8	(139)	1,327	(6,854)
Loss for the period[1]		(7,114)	(4,311)	(16,502)
Loss per share				
Basic loss per share (pence)	12	(3.49)	(2.15)	(8.17)
Diluted loss per share (pence)	12	(3.49)	(2.15)	(8.17)

1 All attributable to Equity shareholders and is entirely from continuing operations.

C. Condensed consolidated statement of profit or loss and other comprehensive income

For the period ended

	6 months to 30 June 2015 (Unaudited) *£000*	6 months to 30 June 2014 (Unaudited) *£000*	Year ended 31 December 2014 (Audited) *£000*
Loss for the period from the income statement	(7,114)	(4,311)	(16,502)
Foreign currency translation differences - foreign operations	164	(600)	1,182
Net (loss)/gain on net investments in foreign operations	(713)	(774)	694
Total comprehensive loss for the period [1]	(7,663)	(5,685)	(14,626)

[1] All attributable to Equity shareholders and is entirely from continuing operations.

D(i). Unaudited condensed consolidated statement of changes in equity

For the six months to 30 June 2014

	Share capital *£000*	Share premium *£000*	Capital reserve *£000*	Translation reserve *£000*	Retained earnings *£000*	Total equity *£000*
Balance at 1 January 2014	20,000	99,796	93,990	4,134	(166,907)	51,013
Total comprehensive income for the period						
Loss for the period	—	—	—	—	(4,311)	(4,311)
Foreign currency translation differences	—	—	—	(600)	—	(600)
Net loss on net investment in foreign operations	—	—	—	(774)	—	(774)
Total other comprehensive income	—	—	—	(1,374)	—	(1,374)
Total comprehensive loss for the period	—	—	—	(1,374)	(4,311)	(5,685)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of share capital to Employee Benefit Trust	320	—	—	—	(320)	—
Share-based payments (net of tax)	—	—	—	—	136	136
Total contributions by and distributions to owners	320	—	—	—	(184)	136
Balance at 30 June 2014	20,320	99,796	93,990	2,760	(171,402)	45,464

D(ii). Audited condensed consolidated statement of changes in equity

For the year to 31 December 2014

	Share capital	Share premium	Capital reserve	Translation reserve	Retained earnings	Total equity
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Balance at 1 January 2014	20,000	99,796	93,990	4,134	(166,907)	51,013
Total comprehensive income for the year						
Loss for the year	—	—	—	—	(16,502)	(16,502)
Foreign currency translation differences	—	—	—	1,182	—	1,182
Net gain on net investment in foreign operations	—	—	—	694	—	694
Total other comprehensive income	—	—	—	1,876	—	1,876
Total comprehensive loss for the year	—	—	—	1,876	(16,502)	(14,626)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of share capital to Employee Benefit Trust	320	—	—	—	(320)	—
Share-based payments (net of tax)	—	—	—	—	236	236
Total contributions by and distributions to owners	320	—	—	—	(84)	236
Balance at 31 December 2014	20,320	99,796	93,990	6,010	(183,493)	36,623

D(iii). Unaudited condensed consolidated statement of changes in equity

For the six months to 30 June 2015

	Share capital	Share premium	Capital reserve	Translation reserve	Retained earnings	Total equity
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Balance at 1 January 2015	20,320	99,796	93,990	6,010	(183,493)	36,623
Total comprehensive income for the period						
Loss for the period	—	—	—	—	(7,114)	(7,114)
Foreign currency translation differences	—	—	—	164	—	164
Net loss on net investment in foreign operations	—	—	—	(713)	—	(713)
Total other comprehensive income	—	—	—	(549)	—	(549)
Total comprehensive loss for the period	—	—	—	(549)	(7,114)	(7,663)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share-based payments (net of tax)	—	—	—	—	399	399
Total contributions by and distributions to owners	—	—	—	—	399	399
Balance at 30 June 2015	20,320	99,796	93,990	5,461	(190,208)	29,359

E. Condensed consolidated statement of cash flows

For the period ended

	Note	6 months to 30 June 2015 (Unaudited) £000	6 months to 30 June 2014 (Unaudited) £000	Year ended 31 December 2014 (Audited) £000
Cash flows from operating activities				
Loss for the period		(7,114)	(4,311)	(16,502)
Adjustments for:				
Depreciation		1,125	1,165	2,515
Amortisation of intangible assets		1,934	2,848	5,419
Impairment losses on trade receivables		—	—	286
Reversal of exceptional impairment losses on trade receivables		(421)	(587)	(977)
Loss on sale of property, plant and equipment		3	57	52
Net finance (income)/expense		(235)	(808)	1,746
Income tax expense/(credit)		139	(1,327)	6,854
Share-based payments		429	191	326
		(4,140)	(2,772)	(281)
Change in inventories		(1,781)	(2,234)	(2,806)
Change in trade and other receivables		(5,704)	(3,025)	2,890
Change in trade and other payables		7,436	4,925	392
Change in provisions		(336)	(431)	(1,081)
Cash used in operations		(4,525)	(3,537)	(886)
Finance cost (paid)/received		(1,411)	961	447
Income tax received/(paid)		160	(356)	(978)
Cash inflow from settlement of derivatives		202	207	461
Net cash outflow from operating activities		(5,574)	(2,725)	(956)
Cash flows from investing activities				
Finance income received		2	15	20
Proceeds from sale of property, plant and equipment		1	82	92
Acquisition of property, plant and equipment		(341)	(1,248)	(2,285)
Development expenditure	10	(5,317)	(4,357)	(9,797)
Net cash used in investing activities		(5,655)	(5,508)	(11,970)
Cash flows from financing activities				
Proceeds from loans and borrowings	11	8,089	—	—
Net cash from financing activities		8,089	—	—
Net decrease in cash and cash equivalents		(3,140)	(8,233)	(12,926)
Cash and cash equivalents at 1 January		4,706	17,591	17,591
Exchange rate effects		6	(196)	41
Cash and cash equivalents at period end		1,572	9,162	4,706

Notes to the unaudited condensed interim financial statements

1 Reporting entity

Promethean World Plc (the "Company") is a company registered in England and Wales. The address of the Company's registered office is Promethean House, Lower Philips Road, Blackburn, Lancashire BB1 5TH.

The condensed interim consolidated financial statements of the Company as at and for the six months ended 30 June 2015 comprises of the Company and its subsidiaries (together referred to as the "Group" and individually as "Group Entities").

The Group's Promethean brand is a world leader in the global market for interactive learning technology. The Group creates, develops, supplies and supports leading-edge, interactive learning technology primarily for the education market. Promethean's solutions include its interactive display systems (ActivBoard, ActivTable and ActivPanel), its Learner Response Systems (ActiVote, ActivExpression) and its specialised teaching software (ActivInspire, ActivEngage and ClassFlow™).

Promethean also provides comprehensive training and support and, now with over 2.2 million members, Promethean Planet (www.prometheanplanet.com) is the world's largest online community for users of interactive learning technology, providing user-generated and premium content and is a forum for teachers to exchange ideas and experience.

2 Statement of compliance

These condensed consolidated interim financial statements of Promethean World Plc have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the EU. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of Promethean World Plc as at 31 December 2014 which have been prepared in accordance with IFRSs as adopted by the EU.

The comparative figures for the year ended 31 December 2014 are not the Group's statutory accounts for that financial year. Those accounts have been reported upon by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

These condensed consolidated interim financial statements were approved by the Board of Directors on 12 August 2015.

3 Accounting policies

These condensed consolidated interim financial statements of Promethean World Plc have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the EU.

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of Promethean World Plc's published consolidated financial statements for the year ended 31 December 2014.

Changes in accounting policy

There has been no impact during the period to 30 June 2015 resulting from new accounting standards or amendments to existing accounting standards that became effective for the Promethean Group from 1 January 2015.

Going concern

The Group meets its day-to-day working capital requirements through operating cash flows, supplemented if required by an asset backed lending facility. The effects of the trading performance in H1 and the seasonal trading cycle in which the Group operates, have resulted in the need to draw down on the facility during the period. The Directors have considered the future availability of the facility and levels of headroom to the facility limit in making their assessment of going concern. The Directors have prepared cash flow projections for the period to December 2016 which shows that the Group is capable of continuing to operate within its facilities including in the event that reasonably possible changes in trading occur and mitigating actions are taken by management.

On the basis of the above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the forseeable future. Accordingly the going concern basis of accounting continues to be adopted in preparing the interim financial statements.

4 **Estimates**

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements of Promethean World Plc as at and for the year ended 31 December 2014.

5 **Operating segments**

There are two reportable segments identified by the Group, based on the destination of sales, North America and International, and they do not arise as a result of an aggregation process. The North America business segment consists of the United States, Canada and the Caribbean. The International business segment consists of the UK & Ireland, Continental Europe and the Rest of the World. Performance by segment is managed and reviewed to gross profit. For internal reporting purposes, aside from trade receivables, no allocation is made between these segments for balances in the statement of financial position, as regardless of an asset's geographical location it could serve each business segment. Disclosures of segment performance are provided in the tables overleaf:

Reportable segment revenue

	6 months to 30 June 2015 (Unaudited)	6 months to 30 June 2014 (Unaudited)	Year ended 31 December 2014 (Audited)
	£000	*£000*	*£000*
North America	30,249	36,476	65,907
International	22,556	21,214	52,267
	52,805	57,690	118,174

Reportable segment profit (gross profit)

	6 months to 30 June 2015 (Unaudited)	6 months to 30 June 2014 (Unaudited)	Year ended 31 December 2014 (Audited)
	£000	*£000*	*£000*
North America	9,602	11,406	21,845
International	5,118	6,615	15,852
	14,720	18,021	37,697

Reconciliation to loss before income tax

	6 months to 30 June 2015 (Unaudited)	6 months to 30 June 2014 (Unaudited)	Year ended 31 December 2014 (Audited)
	£000	*£000*	*£000*
Reportable segmental profit (gross profit)	14,720	18,021	37,697
Sales and marketing expenses	(13,000)	(13,660)	(26,595)
Administrative expenses	(4,195)	(4,108)	(7,051)
Research and development (net)	(1,799)	(1,944)	(3,212)
Adjusted EBITDA	(4,274)	(1,691)	839
Depreciation and amortisation costs	(3,059)	(4,013)	(7,934)
Adjusted operating loss	(7,333)	(5,704)	(7,095)
Exceptional costs[1]	—	(1,138)	(1,932)
Exceptional income[1]	552	587	1,451
Share-based payments	(429)	(191)	(326)
Net finance income/(expense)	235	808	(1,746)
Loss before income tax	(6,975)	(5,638)	(9,648)

1 Further details of the exceptional items are disclosed in note 6.

Further analysis of the Group's revenues by type of product is provided below:

Revenue by product

	6 months to 30 June 2015 (Unaudited)	6 months to 30 June 2014 (Unaudited)	Year ended 31 December 2014 (Audited)
	£000	*£000*	*£000*
Interactive display systems and accessories	51,029	54,576	112,647
Learner Response Systems & Assessment	1,776	3,114	5,527
	52,805	57,690	118,174

Interactive display systems and accessories revenue by region

	6 months to 30 June 2015 (Unaudited)	6 months to 30 June 2014 (Unaudited)	Year ended 31 December 2014 (Audited)
	£000	*£000*	*£000*
North America	29,180	33,865	61,901
International	21,849	20,711	50,746
	51,029	54,576	112,647

Learner Response Systems & Assessment revenue by region

	6 months to 30 June 2015 (Unaudited)	6 months to 30 June 2014 (Unaudited)	Year ended 31 December 2014 (Audited)
	£000	*£000*	*£000*
North America	1,069	2,611	4,006
International	707	503	1,521
	1,776	3,114	5,527

Seasonality

In addition to economic factors, the Group's revenues are subject to seasonal fluctuation during the key buying seasons in the United States, which runs from June to September, and in International markets. As a result, the Directors consider that there is an impact on performance of the Group when comparing first half results to those achieved in the second half.

6 Exceptional items

In H1 2015, an exceptional credit of £0.4m has been recognised in respect of a trade receivable that had been fully provided for in a prior period. A further credit of £0.1m has been recognised following the finalisation of liabilities relating to certain onerous leases.

In H1 2014, exceptional costs of £1.1m were incurred primarily in streamlining the management structure. An exceptional credit of £0.6m was also recognised from the partial release of a prior year trade receivable impairment provision.

7 Finance income and expense

	6 months to 30 June 2015 (Unaudited)	6 months to 30 June 2014 (Unaudited)	Year ended 31 December 2014 (Audited)
	£000	*£000*	*£000*
Interest on bank deposits	2	15	20
Net change in the fair value of financial assets at fair value through profit or loss	82	53	—
Foreign exchange gains	615	976	—
Finance income	699	1,044	20
Interest expense on bank and other loans	(354)	(126)	(254)
Debt issue costs amortised	(110)	(110)	(221)
Foreign exchange losses	—	—	(1,233)
Net change in the fair value of financial assets at fair value through profit or loss	—	—	(58)
Finance expense	(464)	(236)	(1,766)
Net finance income/(expense)	235	808	(1,746)

The changes in fair value of financial assets at fair value through profit or loss result from the movements during the period in the mark to market valuation of the Group's outstanding foreign currency instruments, which are valued in accordance with level 2 methodology.

8 Income tax expense

	6 months to 30 June 2015 (Unaudited)	6 months to 30 June 2014 (Unaudited)	Year ended 31 December 2014 (Audited)
	£000	*£000*	*£000*
Current tax expense	(139)	(446)	(961)
Deferred tax credit/(expense)	—	1,773	(5,893)
Total income tax (expense)/credit	(139)	1,327	(6,854)

Current tax has been recognised as a proportion of management's estimate of the charge for the year. No deferred tax has been recognised in the period, consistent with the assumptions applied for the year ended 31 December 2014. The Group's consolidated reported tax rate for the six months ended 30 June 2015 was -2.0% (six months ended 30 June 2014: 23.5%).

In the prior period, deferred tax was recognised in respect of UK trading losses, which was consistent with the assumptions applied for the year ended 31 December 2013.

9 Dividends

The Directors are not in a position to pay an interim dividend for the six months to 30 June 2015 (2014: £nil).

10 Intangible assets

The movements in the net book value of the Group's intangible assets in the six months to 30 June 2015 were as follows:

	Development costs (Unaudited)
	£000
Net book value as at 1 January 2015	18,141
Additions	5,317
Amortisation for the period	(1,934)
Net book value as at 30 June 2015	21,524
Net book value as at 30 June 2014	15,728

11 Loans and borrowings

As at 30 June 2015, the Group had bank borrowings of £8,089,000 (30 June 2014: £nil). In the statement of financial position, this liability is stated net of prepaid bank fees of £497,000.

12 **Loss per share**

Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary shareholders as disclosed below and a weighted average number of ordinary shares outstanding, calculated as follows:

Loss attributable to ordinary shareholders

	6 months to 30 June 2015 (Unaudited) *£000*	**6 months to 30 June 2014 (Unaudited)** *£000*	**Year ended 31 December 2014 (Audited)** *£000*
Loss for the period attributable to ordinary shareholders	(7,114)	(4,311)	(16,502)
Weighted average number of ordinary shares			
In thousands of shares			
Issued ordinary shares at 1 January	203,200	200,000	200,000
Effect of ordinary shares issued in the period	—	1,715	2,464
Effect of treasury shares held	(1,407)	(1,830)	(1,785)
Effect of dilutive vested share options not yet exercised	1,898	1,012	1,390
Weighted average number of ordinary shares at period end	203,691	200,897	202,069
Basic loss per share (pence)	(3.49)	(2.15)	(8.17)

Diluted loss per share

The calculation of diluted loss per share at 30 June 2015 was based on loss attributable to ordinary shareholders as disclosed below, and a weighted average number of ordinary shares outstanding calculated as follows:

	6 months to 30 June 2015 (Unaudited) *£000*	6 months to 30 June 2014 (Unaudited) *£000*	Year ended 31 December 2014 (Audited) *£000*
Loss for the period attributable to ordinary shareholders	(7,114)	(4,311)	(16,502)
Weighted average number of shares (basic)	203,691	200,897	202,069
Effect of conversion of Promethean World Plc share options	—	—	—
Weighted average number of shares (diluted)	203,691	200,897	202,069
Diluted loss per share (pence)	(3.49)	(2.15)	(8.17)

No adjustment has been made to the weighted average number of shares for the purpose of the diluted earnings per share calculation as the effect would be anti-dilutive.

13 **Share-based payments**

The terms and conditions of the share option schemes in place at 30 June 2015 are provided in the consolidated financial statements for Promethean World Plc as at 31 December 2014.

On 20 February 2015, 130,000 equity settled options were granted under the PSP SARs with an exercise price of 23.25p per share.

The terms and conditions of the award are consistent with those described in the consolidated financial statements for Promethean World Plc as at 31 December 2014.

14 **Related parties**

There have been no other related party transactions or changes to the nature of related party transactions previously described in the 2014 consolidated financial statements of Promethean World Plc that could have a material effect on the financial position or performance of the Group in the period.

Independent Review Report by KPMG LLP to Promethean World Plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Stuart Burdass
For and on behalf of KPMG LLP
Chartered Accountants
One St Peter's Square
Manchester
M2 3AE

12 August 2015

3. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PROMETHEAN GROUP

Set out below is the management discussion and analysis on the Promethean Group for each of the three years ended 31 December 2012, 2013 and 2014, and of the six months ended 30 June 2015.

For the year ended 31 December 2012

Business Review

Austerity measures continued to impact education budgets, particularly in the US, Promethean's major market, and in Europe. Funding for interactive education technology was therefore being squeezed in many countries and, as a consequence, Promethean Group revenues for the year were £157.0 million, down by 29.6% from 2011.

As teachers' salaries and facility costs were relatively fixed in nature, education budgetary pressures significantly impacted the level of investment in interactive education technology. Competition in the technology market also increased with the advent of tablet technology, particularly in the US, giving impetus to one-to-one device initiatives in certain districts and schools. This was complementary to Promethean's solutions, since leading tablet devices can work in conjunction with Promethean's interactive display systems and software. However, in the short term, it impacted the level of available funding for other interactive technology.

Promethean reacted to the market conditions by reorganising and streamlining its business, gaining efficiencies and reducing operating costs. Secondly, Promethean actively introduced products and sales initiatives to highlight the value-for-money proposition and ability to compete across the price range. Thirdly, Promethean increased its focus on its software strategy. The operating cost base was reduced to improve profitability and to ensure that Promethean can be cash positive in the current market environment. Excluding exceptional items and net of capitalised R&D, 2012 operating costs were down by 18.5% to £52.5 million versus £64.5 million in 2011 and, in the second half, were down by 37.5% at £19.8 million compared with £31.8 million in 2011. While making the cost reductions, however, the core R&D investments were protected to ensure innovation going forward. As part of the reorganisation, the Business & Government activities were merged into the existing North American and International sales regions.

In 2012, Promethean launched the ActivTable, to extend the portfolio to collaborative learning, providing a 46" multi-touch, multi-user HD LCD interactive table for up to six students simultaneously. This began shipping in the second half of 2012 with encouraging initial customer reactions and levels of purchase. An agreement was signed to roll ActivProgress out to up to 300,000 Mexican students across a number of states. Following the elections, implementation was anticipated to re-start in 2012, subject to individual states' and central government budget re-approval. Planet for Schools was launched, providing a private Promethean Planet community for up to 100,000 teachers in Mexico and Promethean are engaged in discussions to provide a similar service to other potential customers. The first lesson resources created from the partnership with Houghton Mifflin Harcourt were launched in the second half of 2012 and the Parent Connection, a new programme to deliver daily Channel One News InterActiv broadcasts shown in the classroom directly to parents' smartphones, was announced during the second half of 2012 and was planned to launch early in 2013.

For 2013, Promethean established a pipeline of equipment and software product launches, which would widen its product portfolio and strengthen its software position. Promethean also signed licensing agreements within the year for ActivInspire software to selected providers of interactive projectors, and an alliance with Microsoft to develop a new suite of solutions to provide a new collaborative classroom-based learning environment. Promethean's focus on software also increased. In their work, teachers prepare lessons and lesson materials, teach, test and assess the tests and give personalised learning. Promethean was aiming to automate this work flow, so that teachers can focus on what they like and do best — teaching. In the process, the aim was to enhance their productivity and provide feedback to pupils and parents on a student's progress. To this end Promethean was building an ecosystem of solutions to deliver interactive classroom technology, digital interactive content and a personalised learning platform, coupled with the analysis of student data. This was to be directly compatible with the enterprise level software, to store, aggregate and enable analysis of the data at school, district and country levels, so that educators can gain a true understanding of what works and what doesn't. In North America alone, it was estimated that the size of the addressable segment of the K-12 software market was approximately $1.5 billion per annum. In parallel, Promethean was using its enterprise level software to provide an online collaborative community platform and central store of teaching assets, standardised and aligned to the curricula in different territories, which teachers can access locally — this is what Planet for Schools does. Historically, ActivInspire software was bundled with the hardware devices but this changed during 2012 with Promethean starting to make it available through licence agreements for use on selected certified non-Promethean devices.

Financial Review

Revenues for the year were £157.0 million, a fall of £65.9 million, which was 29.6% down on 2011. By product segment, interactive display system revenues were £139.2 million, down by £57.0 million compared to sales of £196.2 million in the previous year, a reduction of 29.1%. Learner response system revenues were £17.8 million, compared with £26.7 million the previous year, a reduction of 33.3%. The principal area of Promethean's revenue decline was North America, which represented 52.7% of Promethean's revenues in 2012, where sales were £46.9 million below the prior year, a reduction of 36.1%. Revenues in the international region of £74.2 million were down, versus 2011, by 20.4%.

In terms of volume, Promethean sold 134,367 interactive display systems, representing a decrease of 26.5% versus 2011 (2011: 182,791) and 581,103 learner response system handsets (2011: 905,529), 35.8% below the previous year. The average selling price ("ASP") of an interactive display system was 3.5% lower at £1,036 on the prior year of £1,074, due to a greater proportion of sales volumes from the international region (66.9% versus 61.1% in 2011), where generally prices were lower and the sales mix was weighted more towards entry level models and board only rather than full system sales. The ASP of a learner response system handset increased to £30.6 in 2012, from £29.4 in 2011, or up by 3.9%. This increase in ASPs reflected the availability of Promethean's premium learner response system device, the ActivExpression2, throughout 2012, having been released in the fourth quarter of 2011.

Promethean's gross profit for 2012 was £57.6 million (36.7% margin), a reduction of £37.9 million from £95.6 million (42.9% margin) in 2011. Gross margin was impacted by the reduction in sales volumes versus the prior year, sales and regional mix and competitive pricing on certain large tenders.

Promethean's North America business segment consisted of the United States, Canada and the Caribbean, with the United States accounting for the large majority of sales in the segment in both revenue and volume terms. In 2012, North America revenue decreased to £82.8 million from £129.7 million in 2011, or by 36.1%. Interactive display system revenues at £68.6 million were 35.9% lower (2011: £107.0 million) and sales of learner response systems decreased by 37.4% to £14.2 million (2011: £22.7 million). Sales volumes of interactive display systems decreased by 37.4% from 71,069 in 2011 to 44,501. However, ASP in 2012 increased to £1,541 versus prior year of £1,505, principally due to the sales in 2012 of Promethean Group's premium interactive display system the AB500 and also a higher proportion of system sales. The market for learner response systems was difficult in 2012 with Promethean experiencing a fall in handset sales volumes of 38.1%, to 455,050 (2011: 735,673 units), as learner response system sales continued to be impacted by education budget challenges and the growth in tablet device use in the classroom. Gross profit for North America was £32.8 million for the year (2011: £57.7 million) which equated to a gross margin of 39.6% (2011: 44.5%). The gross margin reduction in North America was primarily due to lower volumes and sales mix.

Promethean's international business segment consisted of the UK & Ireland, Continental Europe and the rest of the world. In 2012, international revenue decreased by 20.4% to £74.2 million (2011: £93.2 million). Interactive display system revenues were 20.9% lower at £70.6 million (2011: £89.2 million) and sales of learner response systems also fell, by 10.3% to £3.6 million (2011: £4.0 million). Sales volumes of interactive display systems decreased by 19.6% from 111,722 in 2011 to 89,866. In 2012 demand has been lower than previous years in territories such as Australasia and the Nordic countries, as their markets mature, and in Spain, Portugal and Italy due to austerity measures and a large tender in Italy in 2011. Lower demand in these areas was only partially offset by growth in Central Asia. The ASP fell by 1.6% to £786 (2011: £799), primarily reflecting a higher proportion of sales to emerging markets, where in general pricing was more competitive, although the reduction in ASP had been offset to a degree by a greater proportion of system sales. The market for learner response system in the international region remained immature but saw a 25.8% decrease in volume from 169,856 handsets in 2011 to 126,053 handsets in 2012. Gross profit for international reduced to £24.8 million in 2012 (2011: £37.9 million) reflecting lower sales volumes and a gross margin of 33.5% (2011: 40.6%). International margins were lower due to competitive pricing on tenders, the geographical mix of revenues being more heavily weighted to emerging markets, a higher proportion of systems sales as well as the impact of costs associated with the Mexico interactive whiteboard tender, which was cancelled by the new Mexican government.

Operating expenses, excluding exceptional items, share-based payments, depreciation and amortisation, decreased from £64.5 million in 2011 to £52.5 million in 2012, a fall of £11.9 million, or 18.5%, reflecting the Promethean Group actively reducing its cost base in response to market demand. As a percentage of revenue, operating expenses were 33.5% in 2012, compared to 28.9% in 2011. Operating costs, excluding exceptional items, share-based payments, depreciation and amortisation, in the second half of 2012 at £19.8 million were 37.5% lower than that in the second half of 2011 (second half of 2011: £31.8 million). Whilst the full benefit of the cost savings would be realised in 2013, due to the seasonality of the business, operating costs would typically remain more weighted to the first half of the year. To achieve this level of reduction, in addition to savings in third party costs, the number of employees in the Promethean Group reduced by 28.3% from 935 at 30 June 2012 to 670 as at 31 December 2012. Promethean Group's sales and marketing expenses fell by £9.0 million to £37.1 million and represented 23.6% of revenue (2011: 20.7%). Administrative expenses reduced by 17.1% (or £1.9 million) to £9.3 million. Total gross research and development expenditure (before amounts capitalised) reduced from £16.1 million in 2011 to £14.6 million in 2012 (representing 9.3% of revenue). Throughout 2012, Promethean had maintained its investment in core R&D projects. Net of capitalised development expenditure, which Promethean was required to recognise under IAS 38 *Intangible Assets*, R&D costs were £6.2 million versus £7.2 million in 2011, a reduction of 13.8%.

The net exceptional charge for the year was £158.4 million (2011: £4.7 million). As at 30 June 2012, Promethean Group re-appraised the carrying values of its assets in view of the current economic conditions. Consequently the goodwill, the vast majority of which arose from the 2004 investment by funds advised by Apax Partners in its business, was fully impaired and has been written off, resulting in an exceptional non-cash impairment charge of £140.5 million. Promethean Group incurred reorganisation costs of £16.5 million in 2012 (2011: £2.9 million). These costs comprised redundancy costs of £5.6 million, strategic product rationalisation costs of £5.5 million (primarily relating to the impairment of certain curtailed development projects), a net movement in the provision for onerous leases in respect of vacated properties of £1.4 million, fixed asset impairments of £3.6 million and other costs of £0.4 million, all arising from the reorganisation of Promethean Group to reduce its operating cost base in line with current market demand. An exceptional trade receivable impairment charge of £3.1 million had also been recognised in respect of a specific reseller. On 17 December 2012, Promethean Group sold its investment in FlatFrog Laboratories A.B. for cash proceeds of £1.7 million. Prior to disposal this investment was carried at a fair value of £nil, having recognised a £2.9 million impairment charge in 2011, and therefore an exceptional gain of £1.7 million has been recognised in the year (2011: exceptional loss of £2.9 million).

Adjusted EBITDA excluded exceptional items and non-exceptional share-based payments charges. Adjusted EBIT also excluded the amortisation charge on acquired intangible assets. Promethean Group believed that these adjusted measures were representative of its underlying performance. Promethean's Adjusted EBITDA of £5.1 million in 2012 was 83.6% lower than the previous year (2011: £31.1 million) reflecting the reduction in revenues, gross margin and operating costs in the year. Adjusted EBITDA margin was 3.3% (2011: 14.0%). Depreciation and amortisation (excluding amortisation of acquired intangible assets) increased from £7.7 million in 2011 to £10.6 million in 2012, an increase of £3.0 million or 38.4%. This increase reflected the sustained investment in infrastructure and product development over a number of years. Upon completion of each development project, the resulting asset was typically amortised over a three-year period. Adjusted EBIT fell to a loss of £5.5 million in 2012 from a profit of £23.4 million in 2011.

The pro-forma net loss was £3.8 million compared with a net profit of £16.4 million in 2011. At a statutory reporting level, the net loss was £159.8 million. However, £140.5 million of this loss related to the non-cash write-down of goodwill which was adjusted during the year from investment by funds advised by Apax Partners in 2004. Additionally, Promethean recognised an exceptional reorganisation charge of £16.5 million.

Liquidity and capital resources

As at 31 December 2012, Promethean had bank balances and highly liquid investments of approximately £8.0 million compared to approximately £21.8 million as of 31 December 2011.

As at 31 December 2012, Promethean had net assets of £55.9 million compared to £219.7 million as of 31 December 2011.

Gearing ratio

Promethean did not, as at 31 December 2012, have any long or short term borrowings on its statements of financial position. As a result, Promethean gearing ratio was nil for the financial year.

Capital structure

As at 31 December 2012, Promethean's total equity amounted to approximately £55.9 million compared to approximately £219.7 million as at 31 December 2011.

Foreign currency risk

Promethean was exposed to currency risk on sales and purchases that were denominated in a currency other than the respective functional currencies of its entities, primarily Sterling, US Dollars (USD), Euros and Chinese Renminbi. Transactions outside of these currencies are limited.

Promethean reviewed its net currency exposures for a rolling twelve-month period. Promethean purchased the majority of its raw materials in USD which offset a proportion of USD sales thereby reducing net foreign exchange exposure.

In calculating its net transaction exposure, Promethean took into account its trade receivables and trade payables denominated in a foreign currency. It used forward exchange contracts as economic hedge against currency risk, where cash flow can be judged with reasonable certainty. Foreign exchange swaps and options may be used to hedge foreign currency receipts in the event that the timing of the receipt is less certain.

Employee and Emolument Policy

As of 31 December 2012, Promethean's overall staff headcount was 670, down from 935 as at 30 June 2012. It aimed to provide remuneration packages and working conditions that would attract and retain personnel of the required calibre.

All employees share in Promethean's success through bonus or commission schemes and other reward and incentive schemes, which can be formal and informal. These reflect an appropriate balance between personal performance and Promethean's performance against financial and market share targets.

For the year ended 31 December 2013

Business Review

Austerity measures continued to suppress education budgets, particularly in the US, Promethean's major market, and in Europe. During 2013, funding for interactive education technology was again squeezed in many regions. Nevertheless, Promethean announced in its trading update, Promethean delivered results ahead of market expectations. Revenue declined at a noticeably slower pace than in 2012, profitability increased at EBITDA level and net cash was doubled at the same time as continuing investment in new product development took place.

In 2013, Promethean launched the ActivBoard Touch, a new range of interactive touch displays originally developed to enable Promethean to compete more effectively on price in emerging markets while also providing a rich user experience. They began shipping in the second quarter of 2013 and were so well received that they were being sold globally. Further developments were being made to increase functionality and extend the ActivBoard Touch product range.

Promethean also launched the ActivPanel Touch, its first interactive flat panel, enabling it to compete in this growing segment of the interactive front-of-class display market. The ActivPanel has a crystal-clear display, smooth and responsive touch interactivity and a durable design. Initially, it had been launched with 65" and 70" screens, working seamlessly with all Promethean solutions, and included Promethean's ActivInspire software. Initial customer feedback had been very positive. At the BETT International Trade Show in January 2014, Promethean previewed ActivWall, a large 16ft collaborative interactive whole class and multiple, simultaneous small team surface. The ActivWall supported multiple independent pens and simultaneous touches making it easy for multiple teams of students to collaborate on the same surface.

Promethean's mobile device strategy addresses both the trends in mobile device technology and the provision of assessment software. ActivExpression and ActiVote devices remained amongst the leading dedicated learner response handsets. The US market in particular, however, had taken to the adoption of tablet technology in the classroom. In the fourth quarter of 2013, the Promethean KUNO tablet was launched in the US market. As an EduTablet for education, it was designed specifically for the one-to-one education market and comes loaded with education specific software and with built-in web filtering, a student-safe operating interface and a rugged case to protect the device in the classroom environment. In the first half of 2013 ActivEngage2 was launched, the latest version of Promethean's software-based learner response system. This software, which runs on Android, iOS and Windows 8 platforms, enables students to respond to questions via laptops, mobile phones or tablet devices. The Promethean KUNO tablet was launched with ActivEngage2 student response software pre-loaded.

ClassFlow™ is a cloud-based application, which can build and access interactive lessons from any web browser. ClassFlow™ enables teachers to foster student engagement by connecting mobile devices such as tablets, smartphones and laptops to classroom displays and interactive whiteboards. As a result, teachers can use real-time student responses to instantly adjust any lesson in the moment of learning. At BETT, Promethean launched the Beta version of its ClassFlow™ software, with educators able to sign up for a complimentary online account at classflow.com, so they can begin building their personal repository of digital resources and lessons. On the site, they are able to search for, and share lessons with, other users. They can also use ClassFlow™ to deliver these lessons to their students, while incorporating a wide variety of technology.

Financial Review

Revenues for the year were £141.2 million, a reduction of 10.1% versus 2012 (or down by 11.8% on a constant currency basis). This was a significantly lower rate of revenue decline than in 2012, which was 29.6% lower than 2011 revenue. By product segment, interactive display systems revenues were £132.1 million, down by £7.1 million compared to sales of £139.2 million in the previous year, a reduction of 5.1%. Learner response system revenues were impacted by the adoption of tablet technology in the US market and were £9.1 million, down by 48.9% compared to £17.8 million in the previous year. Learner response system revenues represented 6.4% of total Promethean Group revenues (2012: 11.3%). North America represented 48.9% of Promethean Group revenues in 2013 (2012: 52.7%), with sales of £69.1 million, a reduction of 16.5% versus 2012. Revenues in the international region at £72.1 million were down, versus 2012, by 2.9%.

Promethean sold 128,677 interactive display systems, a decline of 4.2% versus 2012 (2012: 134,367) and 398,944 learner response system handsets (2012: 581,103), 31.3% below in the previous year. The ASP of an interactive display system was 0.9% lower at £1,026 (2012: £1,036). This reflected a greater proportion of sales volumes from the international region (73.4% versus 66.9% in 2012), where generally prices were lower and the sales mix was weighted more towards entry level models, and board only rather than full system sales. The effects of regional mix were partially offset by an increased proportion of systems sales and higher specification boards in North America and HMH revenues in the year. The ASP of a learner response system handset fell to £22.8 in 2013, from £30.6 in 2012, or down 25.6%, again reflecting the regional mix, with international sales comprising 52.4% of dedicated device sales volumes (2012: 21.7% of volume). North America ASP was broadly flat at £31.8 per device versus £31.2 in 2012.

Promethean's gross profit for 2013 was £50.6 million (35.8% margin), a reduction of £7.1 million from £57.6 million (36.7% margin) in 2012. Gross margin was impacted by the reduction in sales volumes versus the prior year, product and regional mix.

Promethean's North America business segment consisted of the United States, Canada and the Caribbean with the United States accounting for the large majority of sales in the segment in both revenue and volume terms. In 2013, North America revenue was £69.1 million, a reduction of 16.5% versus the previous year (2012: £82.8 million). Interactive display system revenues at £63.1 million were 8.1% lower (2012: £68.6 million) and sales of learner response systems decreased by 57.5% to £6.0 million (2012: £14.2 million). Sales volumes of interactive display systems decreased by 23.0% from 44,501 in 2012 to 34,255. However, ASP in the current year increased to £1,841 versus prior year of £1,541, principally due to the sales mix in 2013 being weighted towards the higher specification interactive displays, a greater proportion of system sales and also incremental software sales (ActivInspire re. Epson licences) and lesson content sales (re. HMH). The market for dedicated learner response devices continued to contract in 2013 with Promethean experiencing a fall in handset sales volumes of 58.3%, to 189,792 (2012: 455,050 units), as learner response system sales continue to be impacted by education budget challenges and the growth in tablet device use in the classroom, although ASP for the learner response system handsets remained broadly flat. Gross profit for North America was £27.7 million for the year (2012: £32.8 million) which equated to a gross margin of 40.0% (2012: 39.6%).

In 2013, international revenue decreased by 2.9% to £72.1 million (2012: £74.2 million). However, the 2012 comparator included a large Russian tender win; excluding that tender, revenue would have increased slightly in 2013. Interactive display system revenues were 2.3% lower at £69.0 million (2012: £70.6 million) and sales of learner response systems also fell by 14.7% to £3.1 million (2012: £3.6 million). Sales volumes of interactive display systems increased 5.1% to 94,422 from 89,866 in 2012. In 2013, demand has been higher than 2012 in territories such as the Middle East and Asia Pacific along with increases in Central and Southern Europe revenues. This had offset the majority of the reduction in Russian revenues. The ASP fell by 7.0% to £731 (2012: £786) primarily reflecting a higher proportion of sales to emerging markets, where in general pricing is more competitive. The market for learner response system in the international region remained immature but saw a 65.9% increase in volume from 126,053 handsets in 2012 to 209,152 handsets in 2013, reflecting increased demand in Asia. Gross profit for international reduced to £22.9 million in 2013 (2012: £24.8 million) due to regional mix and a gross margin of 31.8% (2012: 33.5%), primarily reflecting the geographical mix of revenues being more heavily weighted to emerging markets.

Promethean Group had again kept a tight control over its operating cost base. Operating expenses, excluding exceptional items, share-based payments, depreciation and amortisation, decreased from £52.5 million in 2012 to £41.2 million in 2013, a reduction of 21.6%, and was 36.1% lower than 2011 levels of £64.5 million. As a percentage of revenue, operating expenses were 29.2% in 2013, compared to 33.5% in the previous year. Total gross research and development expenditure (before amounts capitalised) reduced from £14.6 million in 2012 to £13.1 million in 2013 (representing 9.3% of revenue). Promethean had maintained its investment in core R&D projects. Net of capitalised development expenditure, which Promethean was required to recognise under IAS 38 *Intangible Assets*, R&D costs were £5.0 million versus £6.2 million in the previous year.

The net exceptional charge for the year was £3.5 million (2012: £158.4 million) and primarily comprised of £4.1 million of charges relating to the impairment of certain development projects and a £0.7 million partial release of a prior year impairment provision in respect of trade receivables. Net exceptional costs in 2012 consisted of a non-cash goodwill impairment charge of £140.5 million, reorganisation costs of £16.5 million, a trade receivable impairment charge of £3.1 million in respect of a specific reseller and a net gain from the sale of the Promethean Group's investment in FlatFrog Laboratories AB of £1.7 million.

Adjusted EBITDA excluded share-based payment charges and exceptional costs. Adjusted EBIT also excluded the amortisation charge on acquired intangible assets. Promethean Group believed that these adjusted measures were representative of its underlying performance. Promethean's Adjusted EBITDA of £9.4 million in 2013 was 84.4% higher than the previous year (2012: £5.1 million), reflecting a reduction in the rate of revenue decline and further reductions in operating costs in 2013. Adjusted EBITDA margin was 6.7% (2012: 3.3%). Depreciation and amortisation (excluding amortisation of acquired intangible assets) was £10.1 million, a decrease of £0.5 million or 4.8% (2012: £10.6 million). Adjusted EBIT was a loss of £0.7 million in 2013, an improvement from the loss of £5.5 million in 2012.

On a pro forma basis, excluding the amortisation of acquired intangible assets and exceptional items and assuming an effective tax rate of 24% in 2013, versus 25% in 2012, pro forma net loss for 2013 was £1.2 million compared to net loss of £3.8 million in 2012.

Liquidity and Capital Resources

As at 31 December 2013, Promethean had bank balances of approximately £17.6 million compared to approximately £8.0 million as of 31 December 2012.

As at 31 December 2013, Promethean had net assets of £51.0 million compared to £55.9 million as of 31 December 2012.

During the financial year leading to 31 December 2013, Promethean entered into a new secured bank facility agreement for up to £25 million arranged by Burdale Financial Limited with Wells Fargo Bank. The new asset-based lending facility, which runs to 30 September 2017, replaced Promethean's bank facility with Lloyds Bank Plc which was due to mature in March 2015. The facility was secured by share pledges over the shares of Promethean SAS and Promethean GmbH and by fixed and floating charges over the assets of Promethean World Plc., Promethean Inc., Promethean Limited, Chalkfree Limited and Promethean (Holdings) Limited.

On the basis of the existing banking facilities in place as at 31 December 2013 and management's forecasts, Promethean believed that there was sufficient headroom for the Promethean Group to operate comfortably for the foreseeable future.

Gearing Ratio

Promethean did not, as at 31 December 2013, have any long or short term borrowings on its statements of financial portion. As a result, the company's gearing ratio was nil for the financial year.

Capital Structure

As at 31 December 2013, Promethean's total equity amounted to approximately £51.0 million compared to approximately £55.9 million as at 31 December 2012.

Foreign Currency Risk

Promethean was exposed to currency risk on sales and purchases that were denominated in a currency other than the respective functional currencies of its entities, primarily Sterling, USD, Euros and Chinese Renminbi. Transactions outside of these currencies were limited.

Promethean reviewed its net currency exposures for a rolling twelve-month period. Promethean purchased the majority of its raw materials in USD which offset a proportion of USD sales thereby reducing net foreign exchange exposure.

In calculating its net transaction exposure, Promethean took into account its trade receivables and trade payables denominated in a foreign currency. Promethean used forward exchange contracts as economic hedge against currency risk, where cash flow could be judged with reasonable certainty. Foreign exchange swaps and options might be used to hedge foreign currency receipts in the event that the timing of the receipt was less certain.

Employee and Emolument Policy

As of 31 December 2013, Promethean's overall staff headcount was 676. Promethean aimed to provide remuneration packages and working conditions that would attract and retain personnel of the required calibre.

All employees share in Promethean's success through bonus or commission schemes and other reward and incentive schemes, which can be formal and informal. These reflect an appropriate balance between personal performance and Promethean's performance against financial and market share targets.

For the year ended 31 December 2014

Business Review

2014 was a year of contrasting performance between the North American and international sales regions. In North America, Promethean returned to growth in unit volumes sold, local currency revenues and market share. By contrast in the international region, trading conditions had been more volatile in many European and Asia Pacific countries, particularly in the first half of the year.

Promethean traded well in the North American market during 2014, with revenues of £65.9 million (2013: £69.1 million). The relative weakness of the US dollar in the first half of the year impacted reported revenues upon translation into Sterling. On a local currency basis, however, North American revenues were 1.2% ahead of 2013 and were up 8.7% in the fourth quarter.

Promethean had significant success in front-of-class display tenders, most notably the Miami—Dade contract for over 10,000 ActivBoard Touch interactive displays in the first half. There were also a series of significant tender wins during the rest of the year in many other districts. The Miami—Dade contract also incorporated the provision of ongoing professional development support to help teachers adopt and fully benefit from this investment in new technology. This teacher transformation initiative was being driven and deployed with ClassFlow imaged on approximately 150,000 one-to-one devices being deployed in Miami—Dade. In the US market, there was an increasing shift in product mix towards the ActivPanel, mirroring the trend in other early adopter markets such as the UK. While the interactive whiteboard still sold in significantly higher volumes, Promethean believed that the shift in product mix was showing the emergence of a replacement cycle. The market for dedicated student response devices in North America continued to contract, as the adoption of devices (notebooks, Chromebooks, tablets and netbooks) in classrooms continued to accelerate. In North America, in 2014, it was estimated that 8.9 million devices were purchased for use in the K-12 education sector (2013: 6.8 million). (Source: Futuresource Consulting).

In the international region, which included all markets outside of North America, revenue was £52.3 million (2013: £72.1 million), down by 27.5% in 2014. Sales volumes in 2014 were significantly lower in many of the key European markets, including Germany, France, Russia and Scandinavia. In certain of these European markets, purchasing decisions had been delayed due to a slippage in the completion of education frameworks and deferral of projects due to budgetary constraints.

In addition, political uncertainty had affected the timing of tender opportunities in Asia, resulting in a significant impact on sales volumes throughout the year. During 2014, a replacement cycle had been evident in the UK market, with sales volumes of the interactive flat panel outstripping the interactive whiteboard. Promethean also saw increased interactive flat panel demand in Nordic countries and Australia, all of which were relatively highly penetrated markets.

During 2014, ActivPanel Touch product gained market share in this growing segment of the interactive display market. The ActivPanel Touch became available in four sizes (55'', 65'', 70'' and 84'') with the latest model supporting Windows, Mac and Linux operating systems and positioned to compete effectively on functionality and price in 2015. The ActivBoard Touch range of interactive displays enabled Promethean to compete effectively on price whilst delivering the touch capability required by customers. The ActivBoard Touch was the product selected by Miami — Dade and was installed in over 10,000 of its classrooms during 2014. The functionality of the ActivBoard Touch was enhanced during the year with the premium version of this product supporting six touches. Development was ongoing on Promethean's range of interactive displays, including a digital pen for both the ActivBoard Touch and ActivPanel Touch. Promethean was also developing its next generation interactive technology, which was expected to launch in the second quarter of 2015.

Following a beta release of ClassFlow at BETT in January 2014, ClassFlow was officially launched to the US market in July 2014. The most recent update, ClassFlow 2.5, was released in January 2015, which introduced ClassFlow for Schools providing functionality at school or district level. ClassFlow was available in 21 languages. The high level of interest generated in the US led Promethean to establish a dedicated sales team in 2014, ahead of initial plans. In 2014, this has yielded the signature of multi-year ClassFlow licence agreements with a total contract value of $4.3 million. The first revenues from these contracts will be recognised in 2015. As at 31 December 2014, there were ClassFlow registrants in over 45 countries. In addition to the North American market, Promethean has identified other established markets in the international region in which to roll out ClassFlow.

Promethean continued to generate revenues from the sale of lesson resources created from its partnership with Houghton Mifflin Harcourt (HMH), although at a lower level than in 2013. Multiple strategic alliances are under construction for 2015 around content and ClassFlow. Promethean also launched its ClassFlow Teacher Competency Centre in Miami based around the Miami—Dade project. Promethean also established its ClassFlow Lesson Plan Competency Centre on the campus of the University of South Florida (USF), Florida's largest university and in the top 40 for research in North America. This was in close co-operation with USF's College of Education, one of the most well respected colleges of education in North America. Promethean also generated revenues from the licensing of the award-winning ActivInspire software to Epson, for use on its interactive projectors, and to other selected third parties.

Promethean Planet membership continued to grow, up by 14.5% during 2014 to 2.1 million members as at 31 December 2014. Promethean has started transitioning Planet members into ClassFlow users; this process was expected to accelerate in 2015.

Financial Review

Promethean Group revenues were £118.2 million (2013: £141.2 million), down by 16.3% versus 2013 or 12.1% down on a local currency basis. By product, interactive display systems revenues for Promethean were £112.6 million, 14.7% lower than sales of £132.1 million in the previous year. Student response system revenues were £5.5 million, 39.2% lower than last year (2013: £9.1 million).

Promethean sold 121,977 interactive display systems (2013: 128,677 systems), a reduction of 5.2% compared to the previous year. ASP for Promethean's interactive display systems in 2014 was £924, down by 10.0% from £1,026 in 2013. This reflected a changing product mix, with greater sales of the ActivBoard Touch, lower royalty revenues from Houghton Mifflin Harcourt (HMH) lesson content, as well as the currency translation impact on US Dollar revenues, all of which reduced ASPs. This was only partially offset by increased 2014 sales volumes of the ActivPanel Touch.

In 2014, North America revenues of £65.9 million represented 55.8% of total Promethean Group revenues (2013: £69.1 million, 48.9% of Promethean Group revenues). In local currency terms, North American revenues were £108.9 million (2013: £107.7 million), up 1.2%.

In North America, interactive display system revenues were £61.9 million (2013: £63.1 million) and sales of student response systems were £4.0 million (2013: £6.0 million), reductions of 1.8% and 33.5% respectively. Sales volumes of interactive display systems increased by 24.3% to 42,579 from 34,255 in 2013. The North America ASP of £1,454 was down by 21.0% (2013: £1,841) due to lower lesson content revenues, large tender pricing on the Miami—Dade contract and sales mix, as well as the adverse currency translation impact.

International revenues in 2014 were £52.3 million, 27.5% below the previous year (2013: £72.1 million). Sales of interactive display systems in the International region of £50.7 million (2013: £69.0 million) were 26.5% lower due to a reduction in sales volumes from 94,422 in 2013 to 79,398 in 2014. The international ASP reduced to £639 (2013: £731) primarily due to changes in country and product mix in comparison to the prior year.

Promethean's gross profit for the year was £37.7 million versus £50.6 million in 2013, reflecting the reduction in both revenues and gross margin. Gross margin in 2014 was 31.9% (2013: 35.8%), due to the impact of lower lesson content revenues in the period (in 2013, lesson content revenues benefited from royalties arising from the initial adoption of HMH interactive curriculum content resources), large tender pricing and product mix (including lower student response system revenues and increased interactive flat panel sales), all of which were only partially offset by the geographical mix of sales being more heavily weighted towards North America. Gross profit for North America was £21.8 million in 2014 (2013: £27.7 million), primarily reflecting a reduction in gross margin during the period. The gross margin in North America was 33.1% (2013: 40.0%), the reduction primarily reflecting 2013 having benefited from higher HMH content adoption revenues and the margin impact from Miami—Dade contract revenues in 2014. Gross profit for international was £15.8 million in 2014, down from £22.9 million in 2013 due to lower revenues and product mix. The gross margin in international was 30.3% (2013: 31.8%).

Operating expenses, excluding exceptional items, share-based payments, depreciation and amortisation, decreased from £41.2 million in 2013 to £36.9 million in 2014, a reduction of 10.5%. Sales and marketing costs for the year were 6.1% lower than 2013, despite Promethean's additional investment in ClassFlow sales and marketing initiatives following the positive market response to its launch in the US. Administrative expenses were 10.0% lower than in 2013.

Total gross research and development (R&D) expenditure (before amounts capitalised) was £12.6 million (2013: £13.1 million) as Promethean maintained its investment in core R&D projects. Net of capitalised development expenditure, which Promethean was required to recognise under IAS 38 *Intangible Assets,* R&D costs were £3.2 million versus £5.0 million the previous year.

The net exceptional charge for the year was £0.5 million (2013: £3.5 million), including £1.9 million of reorganisation costs partially offset by credits of £1.0 million (2013: £0.7 million) for the partial release of a prior year trade receivable impairment provision and a £0.5 million credit in respect of the release of an onerous lease provision.

Adjusted EBITDA excluded share-based payment charges and exceptional costs. Adjusted EBIT also excluded the amortisation charge on acquired intangible assets. Promethean believed that these adjusted measures were representative of its underlying performance. Promethean's Adjusted EBITDA was £0.8 million in 2014 (2013: £9.4 million) reflecting lower revenues and the reduction in gross margin in 2014.

Depreciation and amortisation (excluding amortisation of acquired intangible assets) was £7.9 million, a decrease of £2.2 million or 21.7% (2013: £10.1 million). Adjusted operating loss (EBIT) was £7.1 million in 2014 (2013: £0.7 million loss).

Promethean used the pro forma basis as it believed it to be a consistent measure of underlying performance. On a pro forma basis, excluding the amortisation of acquired intangible assets and exceptional items and assuming an effective tax rate of 22% in 2014, versus 24% in 2013, pro forma net loss for 2014 was £6.9 million compared to a net loss of £1.2 million in 2013.

Liquidity and Capital Resources

As at 31 December 2014, Promethean had bank balances of approximately £4.7 million compared to approximately £17.6 million as of 31 December 2013.

As at 31 December 2014, Promethean had net assets of £36.6 million compared to £51.0 million as of 31 December 2013.

During the 2014 financial year, Promethean maintained the £25 million asset backed facility with Wells Fargo. On the basis of the existing banking facilities in place as at 31 December 2014 and management's forecasts, there was sufficient headroom for Promethean to operate in the foreseeable future. Promethean's forecasts, taking into account of reasonably possible changes in trading, showed that Promethean should be able to operate within the level of its current facility.

Gearing Ratio

Promethean did not, as at 31 December 2014, have any long or short term borrowings on its statement of financial position. As a result, Promethean's gearing ratio was nil for the financial year.

Capital Structure

As at 31 December 2014, Promethean's total equity amounted to approximately £36.6 million compared to approximately £51.0 million as at 31 December 2013.

Foreign Currency Risk

Promethean was exposed to currency risk on sales and purchases that were denominated in a currency other than the respective functional currencies of its entities, primarily Sterling, USD, Euros and Chinese Renminbi. Transactions outside of these currencies were limited.

Promethean reviewed its net currency exposures for a rolling twelve-month period. Promethean purchased the majority of its raw materials in USD which offsets a proportion of USD sales thereby reducing net foreign exchange exposure.

Promethean used forward exchange contracts as an economic hedge against currency risk, where cash flow could be judged with reasonable certainty. Foreign exchange swaps might be used to hedge foreign currency receipts in the event that the timing of the receipt was less certain.

Employee and Emolument Policy

As of 31 December 2014, Promethean's overall staff headcount was 661. Promethean aimed to provide remuneration packages and working conditions that will attract and retain personnel of the required calibre.

All employees share in Promethean's success through bonus or commission schemes and other reward and incentive schemes, which can be formal and informal. These reflect an appropriate balance between personal performance and Promethean's performance against financial and market share targets.

For the six months ended 30 June 2015

Business Review

In the period leading up to 30 June 2015, activity in North America in the interactive display market has been concentrated towards the end of the second quarter with some large ActivPanel contract awards, of which only a small proportion shipped in first half of the year. In the international region, revenue is ahead of the prior year comparator, driven by growth in the UK and Europe.

Interactive display systems sales were down by 20.6% in the first half of 2015 at 45,571 units, versus 57,370 in the first half of 2014. While in the first half of 2015 Learner Response Systems and Assessment sales were 93,184 units, down by 33.7% from 140,544 in the first half of 2014.

In North America, first half revenues were £30.2 million (first half of 2014: £36.5 million). The North American region represented 57.3% of Promethean Group revenues in the period (first half of 2014: 63.2%).

North American interactive display system revenues were £29.2 million (first half of 2014: £33.9 million). Sales volumes of interactive display systems were 16,445 (first half of 2014: 25,952). The 2014 comparator included initial shipments of ActivBoard Touch displays under the Miami-Dade contract, whereas in the first half of 2015 the product mix has been more heavily weighted towards the ActivPanel. Consequently, North American ASPs for interactive displays have increased significantly in the first half of 2015 to £1,774 (first half of 2014: £1,305).

As Promethean anticipated, the market for dedicated Learner response system ("LRS") devices in North America continued to contract due to the rollout of disparate devices into classrooms, in particular tablets and Chromebooks. North American LRS revenues were £1.1 million (first half of 2014: £2.6 million).

In the international region, which includes everywhere outside of North America, first half revenue was £22.6 million (first half of 2014: £21.2 million), due to growth in the UK and Ireland and Continental Europe versus the comparative period.

Sales of interactive display systems in the international region were £21.8 million (first half of 2014: £20.7 million) despite a reduction in sales volumes from 31,418 in the first half of 2014 to 29,126 in the first half of 2015. The international ASP improved to £750 (first half of 2014: £659) due to a combination of changes in country and product mix in comparison to the prior period.

LRS revenues increased to £0.7 million (first half of 2014: £0.5 million), with handset sales volumes up 20.2% in the first-half of the year versus the comparator period.

Financial Review

First half Promethean Group revenues were £52.8 million (first half of 2014: £57.7 million).

By product segment, interactive display systems revenues for the Promethean Group were £51.0 million (first half of 2014: £54.6 million). Learner response system revenues for the first-half were £1.8 million (first half of 2014: £3.1 million).

During the first half of the year, Promethean's gross profit was £14.7 million versus £18.0 million in the first half of 2014, reflecting the overall drop in both revenues and gross margin.

Gross margin in the first-half was 27.9% (first half of 2014: 31.2%), impacted by a regional mix more heavily weighted to the international region and a product mix that included a greater number of interactive flat panels, typically lower margin but a higher ASP than the equivalent interactive whiteboard. First-half margins were also suppressed by a reduction in learner response system revenues and the impact of fixed production costs being spread over a lower level of revenues. These factors were partially offset by increased margin from higher sales of interactive lesson content.

Gross profit for North America was £9.6 million in the first half of 2015 (first half of 2014: £11.4 million), primarily reflecting the reduction in revenue, while gross margin was stable at 31.7% (first half of 2014: 31.3%).

Gross profit for the international region was £5.1 million (first half of 2014: £6.6 million) and gross margin was 22.7% (first half of 2014: 31.2%). Gross margin was impacted by both the change in product mix, now more heavily weighted to interactive flat panels, and the resulting increase in the cost of goods sold (which are primarily USD costs) due to relative strength of the USD in the first half of 2015 versus the first half of 2014.

Promethean's operating expenses, excluding exceptional items, share-based payments, depreciation and amortisation, were £19.0 million (first half of 2014: £19.7 million). Promethean Group sales and marketing expenses reduced by £0.7 million to £13.0 million. Administrative expenses were broadly stable at £4.2 million.

Total gross research and development expenditure (before amounts capitalised) was £7.1 million versus £6.3 million in the first half of 2014. Net of capitalised expenditure, research and development costs were £1.8 million (first half of 2014: £1.9 million).

There were two releases of ClassFlow™ in the first half of 2015, ClassFlow™ 2.5 in January and the most recent update, ClassFlow™ 3.0, released in May, which expands functionality to manage teaching and learning both inside and outside of the classroom. As of 30 June 2015, ClassFlow™ was available in 21 languages with registrants in 68 countries.

In the first half of 2015, an exceptional credit of £0.4 million has been recognised in respect of a trade receivable that had been fully provided for in a prior period. A further credit of £0.1 million has been recognised following the finalisation of liabilities relating to certain onerous leases.

In the first half of 2014, exceptional costs of £1.1 million were incurred primarily in streamlining the management structure. An exceptional credit of £0.6 million was also recognised from the partial release of a prior year trade receivable impairment provision.

Adjusted EBITDA excludes exceptional costs and share-based payments and was a loss of £4.3 million in the first half of 2015 compared to a loss of £1.7 million in the first half of 2014. Depreciation and amortisation reduced from £4.0 million in the first half of 2014 to £3.1 million in the first half of 2015.

Adjusted EBIT was a loss of £7.3 million in the first half of 2015 compared to a loss of £5.7 million in the first half of 2014.

As at 30 June 2015, Promethean Group had a net debt balance of £6.5 million (30 June 2014: net cash of £9.2 million), £11.2 million lower than at 31 December 2014 (net cash of £4.7 million), due to a £5.6 million operating cash outflow in the period and the continued investment in new product development.

Liquidity and Capital Resources

As at 30 June 2015, Promethean had bank balances of approximately £1.6 million compared to approximately £9.2 million as of 30 June 2014.

As at 30 June 2015, Promethean had net assets of £29.4 million compared to £45.5 million as of 30 June 2014.

Gearing Ratio

Promethean, as at 30 June 2015, had bank borrowings of approximately £7.6 million, net of prepaid bank fees of £0.5 million. As a result, Promethean's gearing ratio was 25.9% for the financial year.

Capital Structure

As at 30 June 2015, Promethean's total equity amounted to approximately £29.4 million compared to approximately £45.5 million as at 30 June 2014.

Foreign Currency Risk

Promethean was exposed to currency risk on sales and purchases that were denominated in a currency other than the respective functional currencies of its entities, primarily Sterling, USD, Euros and Chinese Renminbi. Transactions outside of these currencies were limited.

Promethean reviewed its net currency exposures for a rolling twelve-month period. Promethean purchased the majority of its raw materials in USD which offsets a proportion of USD sales thereby reducing net foreign exchange exposure. Promethean is also able to draw funds under its Asset based facility in GBP, USD or EUR as required.

Promethean used forward exchange contracts as an economic hedge against currency risk, where cash flow could be judged with reasonable certainty. Foreign exchange swaps might be used to hedge foreign currency receipts in the event that the timing of the receipt was less certain.

Employee and Emolument Policy

As of 30 June 2015, Promethean's overall staff headcount was 597. Promethean aimed to provide remuneration packages and working conditions that will attract and retain personnel of the required calibre.

All employees share in Promethean's success through bonus or commission schemes and other reward and incentive schemes, which can be formal and informal. These reflect an appropriate balance between personal performance and Promethean's performance against financial and market share targets.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

A. Basis of preparation

The following is an illustrative and unaudited pro forma financial information of the Group as enlarged by the Acquisition upon Completion (the "Unaudited Pro Forma Financial Information"), comprising the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the Group as enlarged by the Acquisition upon Completion.

The Unaudited Pro Forma Financial Information have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Acquisition upon Completion, as if the Acquisition had taken place on 30 June 2015 for the unaudited pro forma consolidated statement of financial position, and as if the Acquisition had taken place on 1 January 2014 for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows.

The Unaudited Pro Forma Financial Information is based on certain assumptions, estimates, uncertainties and other currently available financial information, and has been prepared by the Directors for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position, results of operations and cash flows of the Group following the Acquisition upon Completion as at 30 June 2015 or at any future date or results and cash flows of the Group for the year ended 31 December 2014 or for any future period.

The Unaudited Pro Forma Financial Information has been prepared using the accounting policies consistent with those of the Group as set out in the published annual report of the Company for the year ended 31 December 2014.

The unaudited pro forma consolidated statement of financial position of the Group as enlarged by the Acquisition upon Completion as at 30 June 2015 is prepared as if the Acquisition had taken place on 30 June 2015 and is based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2015, which has been extracted from the interim review report of the Company for the period ended 30 June 2015, after making pro forma adjustments that are (i) directly attributable to the Acquisition; and (ii) factually supportable.

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows of the Group as enlarged by the Acquisition upon Completion for the year ended 31 December 2014 are prepared as if the Acquisition had taken place on 1 January 2014 and are based on the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2014, which have been extracted from the annual report of the Company for the year ended 31 December 2014, after making pro forma adjustments that are (i) directly attributable to the Acquisition; and (ii) factually supportable.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP AS AT 30 JUNE 2015

	The Group	The Promethean Group	Sub-total	Pro forma adjustments				The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*		*Note 3*	*Note 6*	*Note 7*	*Note 8*	
Non-current assets								
Property, plant and equipment	1,084,365	64,825	1,149,190	—	—	—	—	1,149,190
Prepaid lease payments	440,001	—	440,001	—	—	—	—	440,001
Intangible assets	137,770	207,539	345,309	308,150	—	—	—	653,459
Interest in associates	23,483	—	23,483	—	—	—	—	23,483
Available-for-sale investments	5,000	—	5,000	—	—	—	—	5,000
Loans receivables	19,736	—	19,736	—	—	—	—	19,736
Deposits made for property, plant and equipment	11,443	—	11,443	—	—	—	—	11,443
Goodwill	40,013	—	40,013	281,122	—	—	—	321,135
Deferred tax assets	54	22,428	22,482	—	—	—	—	22,482
	1,761,865	294,792	2,056,657	589,272	—	—	—	2,645,929
Current assets								
Prepaid lease payments	2,732	—	2,732	—	—	—	—	2,732
Inventories	—	131,182	131,182	—	—	—	—	131,182
Loans receivables	2,373	—	2,373	—	—	—	—	2,373
Trade receivables	68,420	236,321	304,741	—	—	—	—	304,741
Amounts due from customers for contract work	11,585	—	11,585	—	—	—	—	11,585
Other receivables, prepayments and deposits	94,584	41,423	136,007	—	—	—	—	136,007
Amount due from a related company	1,704	—	1,704	—	—	—	—	1,704
Amounts due from associates	856	—	856	—	—	—	—	856
Held-for-trading investments	195,396	—	195,396	—	—	—	—	195,396
Derivative financial instruments	—	1,803	1,803	—	—	—	—	1,803
Pledged bank deposit	236,596	—	236,596	—	—	—	—	236,596
Bank deposits	1,463,502	—	1,463,502	—	—	—	—	1,463,502
Bank balances and cash	1,442,821	15,158	1,457,979	(810,728)	—	(20,000)	—	627,251
	3,520,569	425,887	3,946,456	(810,728)	—	(20,000)	—	3,115,728
Current liabilities								
Trade payables	7,185	215,561	222,746	—	—	—	—	222,746
Amounts due to customers for contract work	1,016	—	1,016	—	—	—	—	1,016
Other payables and accruals	190,384	112,573	302,957	—	6,979	—	—	309,936
Deferred income	24,187	—	24,187	—	—	—	—	24,187
Provisions	—	26,844	26,844	—	—	—	—	26,844
Amount due to a related company	1,957	—	1,957	—	—	—	—	1,957
Amount due to an associate	677	—	677	—	—	—	—	677
Convertible preferred shares	259,828	—	259,828	—	—	—	—	259,828
Secured bank borrowings	236,596	73,204	309,800	—	—	—	—	309,800
Income tax payable	97,182	7,299	104,481	—	—	—	—	104,481
	819,012	435,481	1,254,493	—	6,979	—	—	1,261,472
Net current assets (liabilities)	2,701,557	(9,594)	2,691,963	(810,728)	(6,979)	(20,000)	—	1,854,256
Total assets less current liabilities	4,463,422	285,198	4,748,620	(221,456)	(6,979)	(20,000)	—	4,500,185

	The Group	The Promethean Group	Sub-total		Pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*		*Note 3*	*Note 6*	*Note 7*	*Note 8*	
Non-current liabilities								
Deferred tax liabilities	116	—	116	61,630	—	—	—	61,746
Provisions	—	2,112	2,112	—	—	—	—	2,112
	116	2,112	2,228	61,630	—	—	—	63,858
	4,463,306	283,086	4,746,392	(283,086)	(6,979)	(20,000)	—	4,436,327
Capital and reserves								
Share capital	36,687	195,930	232,617	(195,930)	—	—	—	36,687
Share premium	882,555	962,253	1,844,808	(962,253)	—	—	—	882,555
Other reserves	38,640	—	38,640	—	—	—	—	38,640
Statutory reserves	253,630	—	253,630	—	—	—	—	253,630
Capital reserve	10,035	906,270	916,305	(906,270)	—	—	—	10,035
Capital redemption reserve	5,709	—	5,709	—	—	—	—	5,709
Dividend reserve	39,197	—	39,197	—	—	—	—	39,197
Employee share-based compensation reserve	24,896	—	24,896	—	—	—	—	24,896
Treasury shares reserve	(3,253)	—	(3,253)	—	—	—	—	(3,253)
Revaluation reserve	673	—	673	—	—	—	—	673
Translation reserve	(59,478)	52,657	(6,821)	(52,657)	—	—	—	(59,478)
Retained profits	3,187,825	(1,834,024)	1,353,801	1,834,024	(6,979)	(20,000)	3,737	3,164,583
Equity attributable to owners of the Company	4,417,116	283,086	4,700,202	(283,086)	(6,979)	(20,000)	3,737	4,393,874
Non-controlling interests	46,190	—	46,190	—	—	—	(3,737)	42,453
	4,463,306	283,086	4,746,392	(283,086)	(6,979)	(20,000)	—	4,436,327

C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2014

	The Group	The Promethean Group	Sub-total	Pro forma adjustments				The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*		*Note 5*	*Note 6*	*Note 7*	*Note 8*	
Revenue	962,817	1,196,145	2,158,962	—	—	—	—	2,158,962
Cost of revenue	(102,844)	(814,580)	(917,424)	(101,653)	—	—	—	(1,019,077)
Gross profit	859,973	381,565	1,241,538	(101,653)	—	—	—	1,139,885
Other income and gains	157,101	14,889	171,990	—	—	—	—	171,990
Selling and marketing expenses	(152,495)	(269,192)	(421,687)	—	—	—	—	(421,687)
Administrative expenses	(326,934)	(154,976)	(481,910)	—	—	—	—	(481,910)
Development costs	(249,260)	(32,512)	(281,772)	—	—	—	—	(281,772)
Other expenses	(34,027)	(19,556)	(53,583)	—	(6,979)	(20,000)	—	(80,562)
Share of losses of associates	(2,354)	—	(2,354)	—	—	—	—	(2,354)
Operating profit (loss)	252,004	(79,782)	172,222	(101,653)	(6,979)	(20,000)	—	43,590
Interest income on pledged bank deposits	2,794	—	2,794	—	—	—	—	2,794
Exchange loss on pledged bank deposits and secured bank borrowings	(5,081)	—	(5,081)	—	—	—	—	(5,081)
Net gain on derivative financial instrument	6,817	—	6,817	—	—	—	—	6,817
Net loss on held-for-trading investments	(17,304)	—	(17,304)	—	—	—	—	(17,304)
Finance costs	(3,212)	(17,875)	(21,087)	—	—	—	—	(21,087)
Profit (loss) before taxation	236,018	(97,657)	138,361	(101,653)	(6,979)	(20,000)	—	9,729
Taxation	(64,197)	(69,376)	(133,573)	21,855	—	—	—	(111,718)
Profit (loss) for the year	171,821	(167,033)	4,788	(79,798)	(6,979)	(20,000)	—	(101,989)
Exchange differences arising on translation of foreign operations that may be reclassified subsequently to profit or loss	(40)	11,964	11,924	—	—	—	—	11,924
Net gain on net investments in foreign operations	—	7,025	7,025	—	—	—	—	7,025
Total comprehensive income (expense) for the year	171,781	(148,044)	23,737	(79,798)	(6,979)	(20,000)	—	(83,040)
Profit (loss) for the year attributable to:								
Owners of the Company	176,681	(167,033)	9,648	(79,798)	(6,979)	(20,000)	5,698	(91,431)
Non-controlling interests	(4,860)	—	(4,860)	—	—	—	(5,698)	(10,558)
	171,821	(167,033)	4,788	(79,798)	(6,979)	(20,000)	—	(101,989)
Total comprehensive income (expense) attributable to:								
Owners of the Company	176,641	(148,044)	28,597	(79,798)	(6,979)	(20,000)	5,259	(72,921)
Non-controlling interests	(4,860)	—	(4,860)	—	—	—	(5,259)	(10,119)
	171,781	(148,044)	23,737	(79,798)	(6,979)	(20,000)	—	(83,040)

D. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2014

	The Group	The Promethean Group	Sub-total		Pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*		*Note 4*	*Note 5*	*Note 6*	*Note 7*	
Operating activities								
Profit (loss) for the year	171,821	(167,033)	4,788	—	(79,798)	(6,979)	(20,000)	(101,989)
Adjustments for:								
Taxation	64,197	69,376	133,573	—	(21,855)	—	—	111,718
Allowances on trade receivables	4,509	2,895	7,404	—	—	—	—	7,404
Reversal of impairment loss of trade receivables	—	(9,889)	(9,889)	—	—	—	—	(9,889)
Amounts written off as bad debts	5,633	—	5,633	—	—	—	—	5,633
Amortisation of intangible assets	7,448	54,851	62,299	—	101,653	—	—	163,952
Depreciation of property, plant and equipment	70,002	25,457	95,459	—	—	—	—	95,459
Finance costs	3,212	17,875	21,087	—	—	—	—	21,087
Gain on disposal of subsidiaries before taxation	(98)	—	(98)	—	—	—	—	(98)
Gain on bargain purchase from acquisition of a subsidiary	(59)	—	(59)	—	—	—	—	(59)
Loss on disposal of property, plant and equipment	667	526	1,193	—	—	—	—	1,193
Interest income	(96,257)	(202)	(96,459)	—	—	—	—	(96,459)
Net gain on derivative financial instruments	(6,817)	—	(6,817)	—	—	—	—	(6,817)
Net loss on held-for-trading investments	17,304	—	17,304	—	—	—	—	17,304
Release of prepaid lease payments	2,308	—	2,308	—	—	—	—	2,308
Share-based payments expense	26,179	3,300	29,479	—	—	—	—	29,479
Share of losses of associates	2,354	—	2,354	—	—	—	—	2,354
Transaction cost in relation to acquisition of subsidiaies	—	—	—	—	—	6,979	20,000	26,979
Operating cash flows before movements in working capital	272,403	(2,844)	269,559	—	—	—	—	269,559
Increase in inventories	—	(28,402)	(28,402)	—	—	—	—	(28,402)
(Increase) decrease in trade receivables	(14,538)	23,442	8,904	—	—	—	—	8,904
Increase in amounts due from customers for contract work	(7,252)	—	(7,252)	—	—	—	—	(7,252)
(Increase) decrease in other receivables, prepayments and deposits	(59,633)	5,810	(53,823)	—	—	—	—	(53,823)
Decrease in amounts due from related companies	9,127	—	9,127	—	—	—	—	9,127
Increase in amounts due from associates	(367)	—	(367)	—	—	—	—	(367)
Increase in trade and other payables	30,700	3,968	34,668	—	—	—	—	34,668
Increase in amounts due to customers for contract work	424	—	424	—	—	—	—	424
Decrease in deferred income	(1,026)	—	(1,026)	—	—	—	—	(1,026)
Decrease in amount due to a related company	(3,819)	—	(3,819)	—	—	—	—	(3,819)
Increase in amount due to an associate	8	—	8	—	—	—	—	8
Decrease in provisions	—	(10,942)	(10,942)	—	—	—	—	(10,942)
Cash generated from (used in) operations	226,027	(8,968)	217,059	—	—	—	—	217,059

	The Group	The Promethean Group	Sub-total	Pro forma adjustments				The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*		*Note 4*	*Note 5*	*Note 6*	*Note 7*	
Interest paid	(4,289)	4,524	235	—	—	—	—	235
Income tax paid	(469,566)	(9,899)	(479,465)	—	—	—	—	(479,465)
Cash inflow from settlement of derivatives	—	4,666	4,666	—	—	—	—	4,666
Net cash used in operating activities	(247,828)	(9,677)	(257,505)	—	—	—	—	(257,505)
Investing activities								
Interest received	64,141	202	64,343	—	—	—	—	64,343
Acquisitions of subsidiaries	(116,183)	—	(116,183)	(633,840)	—	(6,979)	(20,000)	(777,002)
Acquisitions of associates	(28,992)	—	(28,992)	—	—	—	—	(28,992)
Purchase of held-for-trading investments	(208,153)	—	(208,153)	—	—	—	—	(208,153)
Proceeds from disposal of property, plant and equipment	388	931	1,319	—	—	—	—	1,319
Cash outflow from disposal of subsidiaries	(2,213)	—	(2,213)	—	—	—	—	(2,213)
Deposits paid for acquisition of property, plant and equipment	(32,817)	—	(32,817)	—	—	—	—	(32,817)
Placement of bank deposits	(2,421,255)	—	(2,421,255)	—	—	—	—	(2,421,255)
Placement of pledged bank deposit	(236,805)	—	(236,805)	—	—	—	—	(236,805)
Withdrawal of bank deposits	3,486,902	—	3,486,902	—	—	—	—	3,486,902
Withdrawal of pledged bank deposit	112,362	—	112,362	—	—	—	—	112,362
Advance of loan receivables	(6,348)	—	(6,348)	—	—	—	—	(6,348)
Repayment of loan receivables	3,222	—	3,222	—	—	—	—	3,222
Purchase of prepaid lease payments	(195,287)	—	(195,287)	—	—	—	—	(195,287)
Purchase of property, plant and equipment	(330,744)	(23,129)	(353,873)	—	—	—	—	(353,873)
Purchase of intangible assets	(4,097)	—	(4,097)	—	—	—	—	(4,097)
Development expenditure	—	(99,164)	(99,164)	—	—	—	—	(99,164)
Net cash from (used in) investing activities	84,121	(121,160)	(37,039)	(633,840)	—	(6,979)	(20,000)	(697,858)
Financing activities								
Contribution from non-controlling shareholders	90,300	—	90,300	—	—	—	—	90,300
Return of contribution to an associate and non-controlling shareholders from a subsidiary of the Group	(4,848)	—	(4,848)	—	—	—	—	(4,848)
Proceeds from shares issued upon exercise of share options	12,464	—	12,464	—	—	—	—	12,464
Dividends paid	(161,607)	—	(161,607)	—	—	—	—	(161,607)
New bank borrowing raised	236,805	—	236,805	—	—	—	—	236,805
Repayment of bank borrowings	(114,430)	—	(114,430)	—	—	—	—	(114,430)
Payment for repurchase of shares	(153,392)	—	(153,392)	—	—	—	—	(153,392)
Net cash used in financing activities	(94,708)	—	(94,708)	—	—	—	—	(94,708)
Net decrease in cash and cash equivalents	(258,415)	(130,837)	(389,252)	(633,840)	—	(6,979)	(20,000)	(1,050,071)
Cash and cash equivalents at the beginning of the year	1,304,355	176,888	1,481,243	(176,888)	—	—	—	1,304,355
Effect of foreign exchange rate changes	(9,152)	(1,138)	(10,290)	—	—	—	—	(10,290)
Cash and cash equivalents at the end of the year, represented by bank balances and cash	1,036,788	44,913	1,081,701	(810,728)	—	(6,979)	(20,000)	243,994

E. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The unaudited consolidated statement of financial position of the Group is extracted without any adjustments from unaudited consolidated financial statements of the Group for the period ended 30 June 2015, while the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2014 are extracted without any adjustments from the audited consolidated financial statements of the Group for the year ended 31 December 2014 which is set out in Appendix I to this Circular.

2. The amounts are extracted from the audited consolidated financial statements of the Promethean Group as set out in Appendix II to the Circular (translated to RMB at an average and closing exchange rates of £1=RMB10.122 and £1=RMB9.642 respectively), and represent the Promethean Group's consolidated assets and liabilities, consolidated results and consolidated cash flows as at 30 June 2015 and for the year ended 31 December 2014, respectively.

3. For the purpose of preparing the unaudited pro forma consolidated statement of financial position of the Enlarged Group, the Directors assumed that with the exception of intangible assets, the pro forma fair value of identifiable assets and liabilities of the Promethean Group, are the same as their respective carrying amounts as at 30 June 2015.

   The Group has applied the acquisition method in accordance with HKFRS 3 "Business Combinations" to account for the Acquisition as if the Acquisition was completed on 30 June 2015 and the calculation of pro forma goodwill is as follows:

	At 30 June 2015
	RMB'000
Consideration	810,728
Carrying amount of identifiable net assets acquired	(283,086)
Pro forma fair value adjustment to intangible assets	(308,150)
Deferred tax liability arising from pro forma fair value adjustment to intangible assets	61,630
Pro forma goodwill	281,122

   The adjustments represent the assumed cash consideration of £84.1 million (approximately RMB810.7 million) payable by Digital Train to Promethean Shareholders, assuming 100% of the issued share capital of Promethean is acquired under the Acquisition. The adjustments also reflect (i) the elimination of the pre-acquisition capital and reserves of the Promethean Group; and (ii) the allocation of the remaining purchase consideration of RMB308.2 million, RMB61.6 million and RMB281.1 million to the intangible assets, deferred tax liability and goodwill respectively.

   The pro forma fair value adjustments to intangible assets mainly related to the recognition, on a pro forma basis, of backlog, patent and technology and software. The pro forma fair values of these intangible assets are based on directors' estimation with reference to a valuation carried out by Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group. Asset Appraisal Limited is a member of The Hong Kong Institute of Surveyors.

   Backlog, an accumulation of uncompleted work as at 30 June 2015, is assessed with a pro forma fair value of £5.3 million (approximately RMB51.5 million), using income approach based on the sales contracts signed by the Promethean Group. Patent and technology related to a technological know-how for producing Interactive Whiteboard ("IWB") and Interactive Flat Panel ("IFP"), and is assessed with an aggregate pro forma fair value of £13.8 million (approximately RMB133.4 million), using income approach based on the expected economic life of the relevant technological know-how. Software, i.e. ClassFlow, a cloud-based teaching and learning platform which connects students' tablets and laptops to interactive displays (IWB or IFP), is assessed with a pro forma fair value of £12.5 million (approximately RMB120.5 million), using cost approach based on its replacement cost to develop the software. The remaining intangible assets are customers relationship and assemble workforce, which are considered immaterial.

The deferred tax liability relating to the pro forma fair value of intangible assets amounted to approximately RMB61,630,000, calculated at the United Kingdom Income Tax rate of 20%.

The pro forma fair values of the identifiable assets and liabilities and goodwill in relation to the Acquisition are subject to change upon the completion of purchase price allocation at the completion date of the Acquisition (the "Valuation"), which may be substantially different from their estimated amounts used in the preparation of this Unaudited Pro Forma Financial Information.

The Directors have assessed whether there is any impairment on the pro forma intangible assets and goodwill as at 30 June 2015 in accordance with HKAS 36 "Impairment of Assets" and concluded that there is no impairment in respect of the pro forma intangible assets and goodwill of the Enlarged Group as at 30 June 2015. The recoverable amount of the cash generating unit ("CGU") comprising these pro forma intangible assets and goodwill is determined based on value in use calculation. That calculation uses cash flow projections based on a 5-year financial budgets approved by management of the Promethean Group. Key assumptions for the value in use calculations relate to the estimation of cash inflows /outflows which include budgeted gross margins and operating expenses, such estimation is based on the unit's past performance and the management's expectations for the market development.

The Directors confirmed that they will apply consistent accounting policies, principal assumptions and valuation methods to assess impairment of the intangible assets and goodwill in subsequent reporting periods in accordance with the requirement of HKAS 36.

4. The pro forma net cash outflow of Acquisition is RMB633.8 million which represents the consideration of RMB810.7 million less the cash and cash equivalents of Promethean Group acquired amounting to RMB176.9 million as at 1 January 2014. These adjustments are not expected to have continuing effect on the Enlarged Group's consolidated statement of cash flows.

5. The adjustments relate to additional amortisation of the intangible assets of RMB101,653,000, calculated with respect to respective pro forma fair values and useful lives, which is assumed to be provided for the year as if the Acquisition had been completed on 1 January 2014. The amount of RMB21,855,000 represented the reversal of deferred tax liability relating to the additional amortisation of intangible assets. These adjustments are expected to have continuing effect on the Enlarged Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows.

6. The adjustments represent the accruals for (i) the cash sum payments of £69,167 (approximately RMB667,000) for non-executive directors of the Promethean Group for their additional services carried out outside of the normal business of the Promethean Board in connection with the Acquisition; (ii) share awards of £537,200 (approximately RMB5,180,000) granted under the Promethean Share Schemes to a number of participants; and (iii) cash sum payments of £117,444 (approximately RMB1,132,000) to the holders of the Phantom Cash Awards. These adjustments are not expected to have continuing effect on the Enlarged Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows.

7. The adjustments in the unaudited pro forma consolidated statement of financial position as at 30 June 2015, unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2014 represent estimated acquisition-related costs, including legal and professional fees and transaction costs of approximately RMB20,000,000 paid by the Group. These adjustments are not expected to have continuing effect on the Enlarged Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows.

8. During the period from 1 November 2014 to 31 December 2014, NetDragon (BVI) controlled approximately 86.15% shareholding of Best Assistant Education. The results of Promethean Group for these two months' period during the year ended 31 December 2014 and the pro forma adjustments to the consolidated profit or loss and other comprehensive income were shared by the non-controlling interests of the Group on a pro-rata basis amounting to RMB5,698,000, and the other comprehensive income of Promethean Group for these two months' period during the year ended 31 December 2014 also shared by the non-controlling interests of the Group on a pro-rata basis amounting to RMB439,000, as if the Acquisition had been completed on 1 January 2014. The adjustments are expected to have continuing effect on the Enlarged Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows.

   The adjustments also represent the re-allocation of net assets as at 30 June 2015, attributable to the non-controlling interests of NetDragon (BVI), regarding the sharing of pro forma adjustments to the consolidated statement of financial position as set out in notes 6 and 7, of respectively RMB6,979,000 and RMB20,000,000, by the non-controlling interests of the Group on a pro-rata basis amounting to RMB3,737,000, as if the Acquisition had been completed on 30 June 2015.

2. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, regarding the unaudited pro forma financial information of the Enlarged Group.

Deloitte.
德勤

TO THE DIRECTORS OF NETDRAGON WEBSOFT INC.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of NetDragon Websoft Inc. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the pro forma consolidated statement of financial position as at 30 June 2015, the pro forma consolidated statement of profit or loss and other comprehensive income, the pro forma consolidated statement of cash flows for the year ended 31 December 2014 and related notes as set out on pages III-2 to III-9 of the circular issued by the Company dated 31 August 2015 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page III-1 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of Promethean World Plc on the Group's financial position as at 30 June 2015 and the Group's financial performance and cash flows for the year ended 31 December 2014 as if the transaction had taken place on 30 June 2015 and 1 January 2014 respectively. As part of this process, information about the Group's financial position has been extracted by the Directors from the condensed consolidated financial statements for the six months ended 30 June 2015, on which a review report has been published, while the Group's financial performance and cash flows has been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 December 2014, on which an audit report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 1 January 2014 or 30 June 2015 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 August 2015

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors and chief executives in the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meanings of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies had been notified to the Company and the Stock Exchange were as follows:

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed *(Note 1)*	Approximate percentage of shareholding as at the Latest Practicable Date *(%)*
Liu Dejian *(Note 2)*	The Company	Beneficial owner and through a controlled corporation	254,053,257 (L)	51.06
Liu Dejian *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86
Liu Luyuan *(Note 2)*	The Company	Beneficial owner and beneficiary of a trust	255,652,057 (L)	51.38
Liu Luyuan *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed *(Note 1)*	Approximate percentage of shareholding as at the Latest Practicable Date *(%)*
Zheng Hui *(Note 2)*	The Company	Beneficial owner and through controlled corporations	254,053,257 (L)	51.06
Zheng Hui *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86
Chen Hongzhan *(Note 4)*	The Company	Beneficial owner and beneficiary of a trust	11,197,019 (L)	2.25
Chao Guowei, Charles *(Note 5)*	The Company	Beneficial owner	818,000 (L)	0.16
Lee Kwan Hung *(Note 6)*	The Company	Beneficial owner	1,036,519 (L)	0.21
Liu Sai Keung, Thomas *(Note 7)*	The Company	Beneficial owner	935,019 (L)	0.19

Notes:

1. The letter "L" denotes long positions in the Shares, underlying Shares and share capital of the relevant member of the Group.

2. Liu Dejian is interested in 95.36% of the issued voting shares of DJM, which in turn is interested in 38.40% of the issued share capital of the Company. Liu Dejian is also interested in 0.42% of the issued voting shares of the Company which is represented by beneficial interest of 1,798,800 Shares, a beneficiary of a trust of 197,019 Shares and the rest being underlying shares of interest of 85,200 share options granted by the Company.

   Liu Luyuan is interested in 5.67% of the issued voting shares of the Company which is represented by interest held as a beneficiary of certain trust holding in aggregate 26,541,819 Shares, and the rest being underlying Shares of interest of 1,684,000 share options granted by the Company.

   Zheng Hui is interested in 4.64% and 100.00%, respectively, of the issued voting shares of DJM and Fitter Property Inc., which in turn is interested in 38.40% and 3.82%, respectively, of the issued voting shares of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued voting shares of Eagle World International Inc., which in turn is interested in 2.80% of the issued voting shares of the Company. Zheng Hui is also interested in 0.30% of the issued voting shares of the Company which is represented by beneficial interest of 1,411,800 Shares and the rest being underlying shares of interest of 85,200 share options granted by the Company.

Liu Dejian is the brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 51.04% of the issued voting shares of the Company through their direct and deemed shareholding in DJM, a trust in favour of Liu Luyuan, a trust in favour of Liu Dejian and Liu Luyuan, Fitter Property Inc. and Eagle World International Inc. and their respective shares held as beneficial owner in each of their personal capacities.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)"). Liu Dejian, Liu Luyuan and Zheng Hui have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). Each of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian).

4. Chen Hongzhan is interested in 2.25% of the issued voting shares of the Company which is represented by beneficial interest of 71,000 Shares, a beneficiary of certain trust holding in aggregate 11,040,819 Shares and the rest being underlying shares of interest of 85,200 share options granted by the Company.

5. Chao Guowei, Charles is interested in 0.16% of the issued voting shares of the Company which is represented by beneficial interest of 579,500 Shares and the rest being underlying shares of interest of 238,500 share options granted by the Company.

6. Lee Kwan Hung is interested in 0.21% of the issued voting shares of the Company which is represented by beneficial interest of 718,519 Shares and the rest being underlying shares of interest of 318,000 share options granted by the Company.

7. Liu Sai Keung, Thomas is interested in 0.19% of the issued voting shares of the Company which is represented by beneficial interest of 117,019 Shares and the rest being underlying shares of interest of 818,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) **Disclosure of interests of substantial Shareholders**

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons (other than a Director or chief executive of the Company or their respective associates) or entities who had, or were deemed or taken to have, an interest or a short position in the Shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the

Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

Name of Shareholder	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed *(Note 1)*	Approximate percentage of shareholding as at the Latest Practicable Date *(%)*
DJM	The Company	Beneficial owner	191,078,100 (L)	38.40
IDG Entities *(Note 2)*	The Company	Beneficial owner	78,333,320 (L)	15.74
Ho Chi Sing *(Note 2)*	The Company	Through controlled corporations	78,333,320 (L)	15.74
Zhou Quan *(Note 2)*	The Company	Through controlled corporations	73,490,095 (L)	14.77
First Elite Group Limited *(Note 3)*	The Company	Beneficial owner and through controlled corporations	26,463,011 (L)	5.32
Jardine PTC Limited *(Note 3)*	The Company	Trustee	26,463,011 (L)	5.32

Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.

2. The IDG Entities comprised of IDG Technology Venture Investments and the IDG Group. As at the Latest Practicable Date, IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P. are interested in approximately 2.19%, 10.45%, 2.13% and 0.97%, respectively, in the Company and are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:

   (a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.

   (b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are 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 35.00% by each of Zhou Quan and Ho Chi Sing.

   (c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.

3. First Elite Group Limited is controlled by Jardine PTC Limited, which held on trust for Richmedia Holdings Limited.

Save as disclosed herein, so far as is known to the Directors, as at the Latest Practicable Date, no person (other than a Director or chief executive of the Company or their respective associates) had, or were deemed or taken to have, an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or any options in respect of such share capital.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, no Director had a service contract with the Company which is not determinable by the Company within one year without payment of any compensation (other than statutory compensation).

There will be no variation to the remuneration payable to and benefits in kind receivable by the Directors in consequence of the Acquisition.

4. INTERESTS IN ASSETS AND CONTRACTS AND COMPETING INTERESTS

As at the Latest Practicable Date,

(i) none of the Directors had any interest, either directly or indirectly, in any assets which has since 31 December 2014 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to the Latest Practicable Date, been acquired or disposed of by or leased to, any member of the Enlarged Group or are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group; and

(ii) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group save as disclosed under the sections headed "Connected Transaction" and "Continuing Connected Transaction" in the "Report of the Directors" of, and note 43 to the financial statements contained in, the annual report of the Company for the year ended 31 December 2014.

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Enlarged Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date and save as set out in the Company's unaudited financial statements for the six months ended 30 June 2015 which was published on 27 August 2015, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2014, the date to which the latest published 2014 full year results of the Group were made up.

6. QUALIFICATION AND CONSENT OF EXPERT

The following are the qualification of the expert who has given advice, letter or opinion for incorporation and as contained in this circular:

Name	Qualifications
Deloitte Touche Tohmatsu	Certified Public Accountants

As at the Latest Practicable Date, the expert identified above has no shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the expert identified above had no direct or indirect interest in any assets which had been, since 31 December 2014 (the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

The expert identified above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.

7. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Group was involved in any litigation or claim of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business of the Group) were entered into by member(s) of the Group within the two years immediately preceding the date of this circular which are or may be material:

(a) a memorandum of understanding dated 30 October 2013 entered into among NetDragon (BVI), Foxteq Holdings Inc. ("**Foxteq**"), and Vision Knight Capital (China) Fund I, L.P. ("**Vision Knight Capital**") for the purpose of exploring and conducting business in the online education and related application market. Subject to the finalisation of the definitive documents, the total amount of the investment for the cooperation under the memorandum of understanding was US$33,000,000. Further details of the memorandum of understanding are disclosed in the Company's announcement dated 30 October 2013;

(b) an agreement dated 24 January 2014 entered into among NetDragon (BVI), Foxteq and Vision Knight Capital in relation to the establishment of a wholly foreign owned enterprise in the PRC and a PRC limited liability company with the name of 福建一零一教育科技有限公司 (Fujian 101 Education Technology Co. Ltd.) and related cooperation, pursuant to which each of them agreed to collaborate in the exploration and business operation in the online education and related application market. Under the said agreement, the initial investment contributions of NetDragon (BVI) were US$3,920,000 and RMB4,900,000, respectively, for the establishment of the said wholly foreign owned enterprise and Fujian 101 Education Technology Co. Ltd. Further details of the agreement are disclosed in the Company's announcement dated 24 January 2014;

(c) a sale and purchase agreement dated 3 June 2014 entered into between NetDragon (BVI) (as purchaser) and Chiu Tsz Kiu Jason Felix (as vendor) in relation to the sale and purchase of the entire share capital of Cherrypicks International Holdings Limited and Target Subsidiaries (as defined in the Company's announcement dated 3 June 2014) at an aggregate consideration of up to US$30,500,000. Further details of which are disclosed in the Company's announcement dated 3 June 2014;

(d) the Confidentiality Agreement, details of which are disclosed in the section headed "Confidentiality Agreement" of the "Letter from the Board" in this circular;

(e) a share purchase agreement dated 6 January 2015 entered into by Best Assistant Education, Best Assistant Education Group Companies (as defined in the Company's announcement dated 6 January 2015), NetDragon (BVI), Idea Gain Limited and series A investors comprising the IDG Group, Vertex Asia Fund Pte. Ltd., Alpha Animation and Culture (Hong Kong) Company Limited, Catchy Holdings Limited, NetDragon (BVI), DJM and Creative Sky International Limited, for the allotment and issue of an aggregate of 180,914,513 Series A Preferred Shares for a total consideration of US$52,500,000. Further details of which are disclosed in the Company's announcement dated 6 January 2015;

(f) the Control Documents (as defined in the Company's announcement dated 10 February 2015) entered into among Fujian Tianquan Education Technology Limited (福建天泉教育科技有限公司) ("**Fujian Tianquan**"), Fujian Huayu Education Technology Co. Ltd. (福建華漁教育科技有限公司) (now known as Fujian Huayu Future Education Technology Co. Ltd. (福建華漁未來教育科技有限公司)) ("**Fujian Huayu**") and Fujian NetDragon Websoft Co. Ltd. (福建網龍計算機網絡信息技術有限公司), pursuant to which Fujian Tianquan would be conferred the rights to enjoy all the economic benefits of, the subsidiaries and affiliates Fujian Huayu. Further details of which are disclosed in the Company's announcement dated 10 February 2015;

(g) a loan agreement dated 26 June 2015 entered into between NetDragon (BVI) (as lender) and Best Assistant Education (as borrower) in relation to an intra-group loan in an amount of US$70,000,000 at an interest rate of 4% per annum for a term of 6 months (subject to any extension as the parties may agree); and

(h) the Co-operation Agreement.

The following contracts (not being contracts in the ordinary course of business of the Promethean Group) were entered into by member(s) of Promethean Group within the two years immediately preceding the date of this circular which are or may be material:

(a) the facility agreement dated 3 July 2013, as amended on 4 February 2015 and on 22 May 2015, entered into by Promethean Limited and Promethean Inc., as borrowers, Wells Fargo Bank, National Association, as original lender and Burdale Financial Limited ("**Burdale**") as agent as security trustee, pursuant to which the lenders make available to the borrowers a revolving credit facility in an aggregate amount of up to £25,000,000 pursuant to which the lenders (through Burdale as agent) purchase receivables from Promethean Limited, make available revolving loans to the borrowers, and issue or procure the issue of letters of credit for the account of the borrowers;

(b) the Confidentiality Agreement; and

(c) the Co-operation Agreement.

9. DOCUMENT AVAILABLE FOR INSPECTION

A copy of the following documents will be available for inspection during the normal business hours from 9:00 a.m. to 5:00 p.m. at the principal place of business of the Company in Hong Kong at Unit No. 2209, 22nd Floor, West Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the EGM (save for Saturday and public holidays):

(a) the memorandum and articles of association of the Company;

(b) the annual report of the Company for the two years ended 31 December 2013 and 2014;

(c) contracts referred to in the section headed "Material Contracts" in this appendix;

(d) the accountants' report on the Promethean Group for the three years ended 31 December 2012, 2013 and 2014, and the unaudited consolidated financial information of the Promethean Group for the six months ended 30 June 2015, the text of which is set out in Appendix II to this circular;

(e) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(f) the letters of consent from the expert identified in the section headed "Qualification and Consent of Experts" above in this appendix; and

(g) this circular.

10. GENERAL

(a) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

(b) The company secretary of the Company is Mr. Lau Hak Kin who joined the Company in February 2014. Mr. Lau holds a bachelor's degree in business administration, majoring in accountancy, from the Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a CFA charterholder. He has over 10 years of experience in financial management, risk management, accounting, taxation and auditing and previously worked for PricewaterhouseCoopers and Asian Citrus Holdings Limited before joining the Company.

NetDragon Websoft Inc.
網龍網絡有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 777)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of NetDragon Websoft Inc. (the "**Company**") will be held at Plaza Meeting Room, Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 17 September 2015 at 3:00 p.m. for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolution:

ORDINARY RESOLUTION

"**THAT**:

(1) the acquisition by Digital Train Limited (an indirect non-wholly owned subsidiary of the Company) of the entire issued and to be issued share capital of Promethean World plc (the "**Target**") at a price of 40 pence per share of the Target (the "**Acquisition**"), the terms and further details of which are set out in the circular of the Company dated 31 August 2015 and in the co-operation agreement (a copy of which has been produced to the meeting marked "A" and signed by the Chairman of the meeting for the purpose of identification) dated 10 July 2015 entered into among the Company, Digital Train and the Target, be and are hereby approved, confirmed and ratified (as the case may be); and

(2) any one and all directors of the Company be and are hereby authorized to exercise all the powers of the Company and take all steps as might in their opinion be desirable, necessary or expedient to give effect to or in connection with the Acquisition including without limitation to:

(a) the execution, amendment, supplement, delivery, submission and/or implementation of any further documents or agreements in relation to the Acquisition; and

(b) the taking of all necessary actions to implement the transactions contemplated under the Acquisition."

By Order of the Board
NetDragon Websoft Inc.
Liu Dejian
Chairman

Hong Kong, 31 August 2015

As at the date of this notice, the executive Directors of the Company are Liu Dejian, Liu Luyuan, Zheng Hui and Chen Hongzhan; the non-executive Director of the Company is Lin Dongliang; and the independent non-executive Directors of the Company are Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas.

Notes:

(1) A member of the Company entitled to attend and vote at the extraordinary general meeting convened by the above notice is entitled to appoint another person as his proxy to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company but must attend the extraordinary general meeting to represent the member.

(2) In order to be valid, the form of proxy must be deposited with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong together with any power of attorney or other authority, under which it is signed, or a certified copy of that power or authority, not less than 48 hours before the time for holding the extraordinary general meeting or any adjournment thereof.

(3) In the case of joint holders of any shares in the Company, any one of such joint holders may vote at the extraordinary general meeting, either in person or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the meeting, either personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such shares shall be accepted to the exclusion of the votes of the other joint registered holders.

(4) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer or attorney or other person duly authorised.

(5) Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.

(6) In order to ensure that the shareholders are entitled to attend and vote at the EGM, the shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Wednesday, 16 September 2015 for registration of the relevant transfer.

(7) Any voting at the extraordinary general meeting shall be taken by poll.