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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 LIMITED*

Supplemental Circular

A letter from the Board is set out on pages 2 to 5 of this Supplemental Circular.

* *Promethean World Limited was formerly known as Promethean World plc.*

31 March 2016

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Capitalised terms used in this Supplemental Circular shall have the meanings as defined in the Circular unless the context otherwise requires. Moreover, in this Supplemental Circular, the following terms shall have the following meanings:

"Circular"	the circular dated 31 August 2015 issued by the Company in respect of the Acquisition
"Latest Practicable Date"	30 March 2016, being the latest practicable date for the purpose of ascertaining certain information contained in this Supplemental Circular prior to its publication
"Promethean"	Promethean World Limited, a company incorporated in England and Wales with registered number 07118000, formerly known as Promethean World plc prior to its re-registration as a private company limited by shares under the Companies Act on 26 November 2015
"Supplemental Circular"	this supplemental circular

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

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
Dr. Leung Lim Kin Simon

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
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P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Units 2001-05 & 11
20th Floor, Harbour Centre
25 Harbour Road
Wan Chai
Hong Kong

31 March 2016

To the Shareholders

Dear Sir or Madam,

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

Supplemental Circular

INTRODUCTION

Reference is made to the Circular and to the announcements of the Company dated 10 July 2015, 6 August 2015, 28 August 2015, 7 September 2015, 17 September 2015, 1 October 2015, 16 October 2015, 3 November 2015 and 14 December 2015.

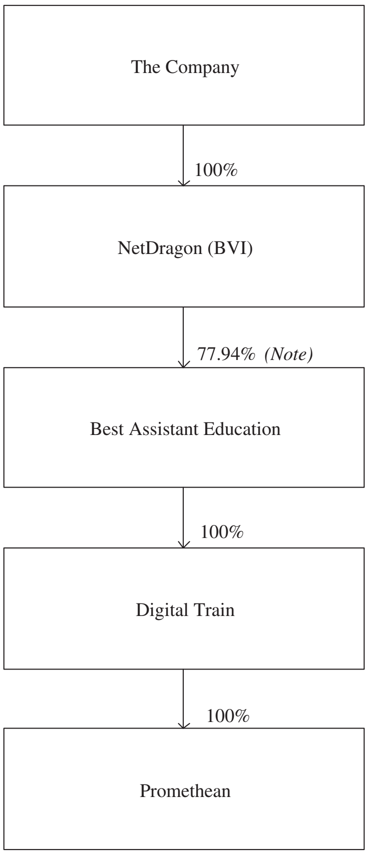
* *Promethean World Limited was formerly known as Promethean World plc.*

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 being payable by the Group. Promethean was listed on the LSE and was 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 set out certain obligations and commitments in relation to the implementation of the Acquisition.

On 17 September 2015, the resolution approving the Offer was passed by the Shareholders at the EGM and the Offer was unconditional in all respects. The Company therefore proceeded with the Acquisition. As at 1:00 p.m. (London time) on 15 October 2015, the Company and Digital Train received valid acceptances of the Offer in respect of 201,384,335 Promethean Shares, representing 99.10 per cent. of the then existing issued ordinary share capital of Promethean, and Promethean was delisted from the main market of the LSE. The Acquisition completed on 2 November 2015 (London time).

As at the Latest Practicable Date, Promethean is a non-wholly owned subsidiary of the Company. The chart below sets out, for illustration purposes, the shareholding of the Company in Promethean as at the Latest Practicable Date.



Note:

As at the Latest Practicable Date, the total share capital of Best Assistant Education comprised 1,300,789,860 ordinary shares and 180,914,513 Series A Preferred Shares, and NetDragon (BVI) controls approximately 77.94% 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.

The purpose of this Supplemental Circular is to provide you with further details of Promethean and the Enlarged Group.

WAIVER FROM STRICT COMPLIANCE WITH RULE 4.03 OF THE LISTING RULES

Pursuant to Rule 4.03 of the Listing Rules, an accountants' report on the Promethean Group which is included in this Supplemental Circular must be prepared by certified public accountants who are qualified under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong). Rule 4.03 of the Listing Rules also provides that, in the case of a circular issued by a listed issuer in connection with acquisition of an overseas company, the Stock Exchange may be prepared to permit the accountants' report to be prepared by a firm of practising accountants which is not so qualified but which is acceptable to the Stock Exchange. Such firm must normally have an international name and reputation and be a member of a recognised body of accountants.

Promethean is a company incorporated in England and Wales. KPMG Audit Plc was the statutory auditor of Promethean for the year ended 31 December 2013. After the restructuring of the KPMG firm in the UK, KPMG LLP became the statutory auditor of Promethean for the two financial years ended 31 December 2014 and 31 December 2015. Both KPMG Audit Plc and KPMG LLP were/are member firms of KPMG in the UK. The Directors are of the view that KPMG LLP had extensive knowledge of and was familiar with the operation, accounting and reporting of Promethean and its financial information.

Although KPMG LLP is not registered under the Professional Accountants Ordinance as required by Rule 4.03 of the Listing Rules, it is registered with the Institute of Chartered Accountants in England and Wales to carry out audit work, and is supervised and regulated by them.

The Directors are of the view that it is more appropriate to appoint KPMG LLP instead of professional accountants who are qualified under the Professional Accountants Ordinance as reporting accountants for the purpose of issuing the accountants' report of Promethean Group to be included in this Supplemental Circular. The Company has therefore applied for and the Stock Exchange has granted a waiver from strict compliance with Rule 4.03 of the Listing Rules to allow KPMG LLP to prepare the accountants' report of Promethean Group for inclusion in this Supplemental Circular.

ADDITIONAL INFORMATION

The Directors confirm that, as at the Latest Practicable Date, there is no material adverse change in the information in the Circular.

Your attention is drawn to the additional information set out in the appendices to this Supplemental Circular.

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

The following is the text of a report, prepared for the purpose of incorporation in this Supplemental Circular, received from the Company's reporting accountants, KPMG LLP, Chartered Accountants, England and Wales.

KPMG

1 St Peter's Square
Manchester
M2 3AE
United Kingdom

31 March 2016

The Board of Directors
NetDragon Websoft Inc.

Dear Sirs,

INTRODUCTION

We set out below our report on the consolidated financial information relating to Promethean World Limited (formerly Promethean World plc) ("the Company") and its subsidiaries (collectively the "Group") comprising the consolidated statements of financial position of the Group as at 31 December 2013, 31 December 2014 and 31 December 2015 and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flow, for each of the years ended 31 December 2013, 31 December 2014 and 31 December 2015 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Financial Information"), for inclusion in the supplemental circular of NetDragon Websoft Inc. ("NetDragon") dated 31 March 2016 (the "Supplemental Circular") in connection with the acquisition of the Group by NetDragon (the "Acquisition").

The Company is registered in England and Wales. All companies comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Periods and the names of the respective auditors are set out in note 31 of Section B. The statutory financial statements of these companies were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated and/or established.

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with IFRSs issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements"). The Underlying Financial Statements for each of the years ended 31 December 2013, 31 December 2014 and 31 December 2015 were audited by us under separate terms of engagement with the Company, in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "IAASB").

The Financial Information has been prepared by the directors of the Company for inclusion in the Supplemental Circular in connection with the Acquisition, based on the Underlying Financial Statements, with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with International Financial Reporting Standards ("IFRS") issued by the IASB, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). We have not audited any financial statements of the Group in respect of any period subsequent to 31 December 2015.

OPINION

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the financial position of the Group as at 31 December 2013, 31 December 2014 and 31 December 2015 and of the Group's financial performance and cash flows for the Relevant Periods then ended.

A CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

Consolidated Income Statements
for the year ended 31 December

	Note	**2013**	**2014**	**2015**
		£000	*£000*	*£000*
Revenue	7	141,158	118,174	107,121
Cost of sales		(90,572)	(80,477)	(78,889)
Gross Profit		50,586	37,697	28,232
Operating expenses	9	(56,491)	(45,599)	(61,878)
Analysis of results from operating activities:				
Earnings/(loss) before interest, tax, depreciation, amortisation, exceptional items and share-based payments		9,407	839	(9,724)
Depreciation and amortisation (excluding amortisation of acquired intangible assets)		(10,129)	(7,934)	(6,949)
Amortisation of acquired intangible assets		(782)	—	—
Exceptional costs	8	(4,267)	(1,932)	(16,012)
Exceptional income	8	742	1,451	552
Share-based payments		(876)	(326)	(1,513)
Results from operating activities		(5,905)	(7,902)	(33,646)
Finance income	11	192	20	10
Finance expense	11	(993)	(1,766)	(1,537)
Net finance expense	11	(801)	(1,746)	(1,527)
Loss before income tax		(6,706)	(9,648)	(35,173)
Income tax credit/(expense)	12	909	(6,854)	(2,578)
Loss for the year		(5,797)	(16,502)	(37,751)

All attributable to equity shareholders.

The loss for the year is entirely from continuing operations.

Consolidated statement of comprehensive income
for the year ended 31 December

	2013	2014	2015
	£000	*£000*	*£000*
Loss for the year from the income statement	(5,797)	(16,502)	(37,751)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences — foreign operations	291	1,182	(204)
Net (loss)/gain on net investments in foreign operations	(209)	694	563
	82	1,876	359
Total comprehensive income for the year	(5,715)	(14,626)	(37,392)

All attributable to equity shareholders.

The loss for the year is entirely from continuing operations.

Consolidated statements of financial position
as at 31 December

	Note	**2013** *£000*	**2014** *£000*	**2015** *£000*
Assets				
Property, plant and equipment	14	7,741	7,534	5,129
Intangible assets	15	14,219	18,141	11,471
Deferred tax assets	12	8,326	2,364	376
Total non-current assets		30,286	28,039	16,976
Inventories	18	8,670	12,007	11,442
Derivative financial assets	17	163	105	—
Trade and other receivables	19	24,601	22,672	17,049
Current tax assets		838	1,216	1,160
Cash and cash equivalents	20	17,591	4,706	2,613
Assets held for sale	14	—	—	280
Total current assets		51,863	40,706	32,544
Total assets		82,149	68,745	49,520
Liabilities				
Loans and borrowings	24	—	—	(2,615)
Trade and other payables	22	(25,937)	(28,119)	(41,929)
Provisions	23	(3,735)	(3,113)	(3,055)
Current tax liabilities		(779)	(665)	(1,037)
Total current liabilities		(30,451)	(31,897)	(48,636)
Provisions	23	(685)	(225)	(211)
Total non-current liabilities		(685)	(225)	(211)
Total liabilities		(31,136)	(32,122)	(48,847)
Net assets		51,013	36,623	673
Equity				
Share capital	21	20,000	20,320	20,320
Share premium		99,796	99,796	99,796
Capital reserve		93,990	93,990	93,990
Translation reserve (FCTR)		4,134	6,010	6,369
Retained earnings		(166,907)	(183,493)	(219,802)
Total equity (all attributable to equity holders of the Company)		51,013	36,623	673

Consolidated statements of changes in equity

	Share capital	Share premium	Capital reserve	Translation reserve	Retained earnings	Total equity
	£000	*£000*	*£000*	*£000*	*£000*	*£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 of the Company						
Contributions and distributions						
Share-based payments (net of tax)	—	—	—	—	787	787
Total contributions and distributions	—	—	—	—	787	787
Balance at 31 December 2013	20,000	99,796	93,990	4,134	(166,907)	51,013

	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 — 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 of the Company						
Contributions and distributions						
Issue of share capital to Employee Benefit Trust	320	—	—	—	(320)	—
Share-based payments (net of tax)	—	—	—	—	236	236
Total contributions and distributions	320	—	—	—	(84)	236
Balance at 31 December 2014	20,320	99,796	93,990	6,010	(183,493)	36,623

	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 year						
Loss for the year	—	—	—	—	(37,751)	(37,751)
Foreign currency translation differences — foreign operations	—	—	—	(204)	—	(204)
Net gain on net investment in foreign operations	—	—	—	563	—	563
Total other comprehensive income	—	—	—	359	—	359
Total comprehensive income for the year	—	—	—	359	(37,751)	(37,392)
Transactions with owners of the Company						
Contributions and distributions						
Share-based payments (net of tax)	—	—	—	—	1,442	1,442
Total contributions and distributions	—	—	—	—	1,442	1,442
Balance at 31 December 2015	20,320	99,796	93,990	6,369	(219,802)	673

Consolidated statements of cash flows
for the year ended 31 December

	Note	**2013** *£000*	**2014** *£000*	**2015** *£000*
Cash flows from operating activities				
Loss for the year		(5,797)	(16,502)	(37,751)
Adjustments for:				
Depreciation	14	3,250	2,515	2,136
Amortisation of intangible assets	15	7,661	5,419	4,064
Impairment losses on property, plant and equipment	14	125	—	749
Impairment losses on intangible assets	15	4,142	—	12,500
Impairment losses on trade receivables	27	—	286	128
Reversal of exceptional impairment losses on trade receivables		(674)	(977)	(421)
(Gain)/loss on sale of property, plant and equipment		(9)	52	3
Net finance expense	11	801	1,746	1,527
Income tax (credit)/expense	12	(909)	6,854	2,578
Share-based payments	26	876	326	1,513
		9,466	(281)	(12,974)
Change in inventories		6,891	(2,806)	870
Change in trade and other receivables		4,054	2,890	5,711
Change in trade and other payables		2,537	392	4,061
Change in provisions		(2,013)	(1,081)	(73)
Cash generated from/(used in) operations		20,935	(886)	(2,405)
Finance cost (paid)/received		(1,058)	447	(2,438)
Income tax received/(paid)		210	(978)	(42)
Cash (outflow)/inflow from settlement of derivatives		(226)	461	368
Net cash inflow/(outflow) from operating activities		19,861	(956)	(4,517)
Cash flows from investing activities				
Finance income received		48	20	10
Proceeds from sale of property, plant and equipment		126	92	24
Acquisition of property, plant and equipment	14	(1,252)	(2,285)	(743)
Development expenditure		(8,072)	(9,797)	(9,694)
Net cash used in investing activities		(9,150)	(11,970)	(10,403)
Cash flows from financing activities				
Transaction costs of secured loan facility		(938)	—	—
Proceeds from loans and borrowings		—	—	3,001
Proceeds from NetDragon group loans		—	—	9,785
Net cash (used in)/from financing activities		(938)	—	12,786
Net increase/(decrease) in cash and cash equivalents		9,773	(12,926)	(2,134)
Cash and cash equivalents at 1 January		8,011	17,591	4,706
Exchange rate effects		(193)	41	41
Cash and cash equivalents at 31 December	20	17,591	4,706	2,613

B NOTES TO CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

1 Reporting entity

The Financial Information has been prepared for the purposes of inclusion in the Supplemental Circular and in accordance with this basis of preparation, including the significant accounting polices set out below.

Promethean World Limited ('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 years ended 31 December 2013, 31 December 2014 and 31 December 2015.

2 Basis of Preparation

(a) Going concern

The Financial Information has been prepared assuming the Group will continue as a going concern. As at 31 December 2015, the Group Statement of Financial Position shows net assets of £0.7m and cash of £2.6m.

The Group has a secured loan 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 drawn to the value of £3.0m as at 31 December 2015 *(2014:£nil, 2013:£nil)*. The Group also has a loan with a fellow subsidiary of NetDragon Websoft Inc., for US$15m, which is repayable in November 2016. Post year end on 8 March 2016, a further loan of US$20m was also granted and is repayable in March 2017 (see note 35 for further details).

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 Limited, Promethean Inc., Promethean Limited, Chalkfree Limited and Promethean (Holdings) Limited.

The Company was acquired by Digital Train Limited (a subsidiary of NetDragon Websoft Inc.) on 2 November 2015. Subsequently, the Directors of NetDragon Websoft Inc have provided Promethean management with a signed letter of support, for at least the 12 month period from the date of this report. On the basis of the existing banking facilities in place as at 31 December 2015, management's forecasts and parental support, there is sufficient funding 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, working capital cycles and support from parent companies. The Group's forecast, taking account of reasonably possible changes in trading, shows that the Company should be able to operate within the level of its available funding.

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 Financial Information.

(b) **Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting year ended 31 December 2015. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2015 are set out in Section C.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(c) **Basis of presentation**

The Financial Information comprises the Company and its subsidiaries.

(d) **Basis of measurement**

The Financial Information is presented in Sterling ("GBP") which is the Company's functional currency, rounded to the nearest thousand. It is prepared on the historical cost basis except for all derivative contracts being carried at their fair value (note 3(c)(ii)).

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

(e) **Use of estimates and judgements**

The preparation of financial statements in conformity with 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 impairment; 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)).

(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 relating 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.

(d) ***Business combinations***

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).

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.

(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.

(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

(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.

(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 Promethean's 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.

(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.

(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) ***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.

(t) ***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.

(u) ***Assets held for sale***

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale are recognised in profit or loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

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.

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 2015, 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 drawn to the value of £3.0m at 31 December 2015 (*2014: £nil, 2013: £nil*). This facility along with additional support from fellow NetDragon Websoft Inc. group undertakings provide the required funding for the Group.

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 loan 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.

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 periodically uses forward exchange contracts as an economic hedge against currency risk, where cash flow can be judged with reasonable certainty.

Interest rate risk

As at 31 December 2015, the Group had net debt of £0.4m *(2014: net cash £4.7m, 2013: net cash £17.6m).*

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 maintain a strong capital base so as to retain investor/parental 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.

As at 31 December 2015 the Group had a net debt position of £0.4m *(2014: net cash £4.7m, 2013: net cash £17.6m)*. The long-term capital employed is equivalent to the shareholders' funds as at 31 December 2015 of £0.7m *(2014: £36.6m, 2013: £51.0m)*.

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 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	**North America**	**International**	**Total**
	£000	*£000*	*£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

2014	**North America**	**International**	**Total**
	£000	*£000*	*£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

2015	**North America**	**International**	**Total**
	£000	*£000*	*£000*
Revenue	56,648	50,473	107,121
Reportable segmental profit (gross profit)	16,499	11,733	28,232
Reportable segmental assets (trade receivables)	5,877	8,858	14,735

Inter-segment trading

Inter-segment trading and profitability is not included in the information provided to the CODM and consequently has not been disclosed. 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

	2013	2014	2015
	£000	*£000*	*£000*
Reportable segmental profit (gross profit)	50,586	37,697	28,232
Sales and marketing expenses	(28,326)	(26,595)	(25,579)
Administrative expenses	(7,836)	(7,051)	(7,243)
Research and development (net)	(5,017)	(3,212)	(5,134)
Adjusted EBITDA	9,407	839	(9,724)
Depreciation and impairment	(3,250)	(2,515)	(2,885)
Amortisation	(6,879)	(5,419)	(4,064)
Adjusted operating loss	(722)	(7,095)	(16,673)
Amortisation of acquired intangibles	(782)	—	—
Exceptional costs	(4,267)	(1,932)	(16,012)
Exceptional income	742	1,451	552
Share-based payments	(876)	(326)	(1,513)
Net finance expense	(801)	(1,746)	(1,527)
Loss before income tax	(6,706)	(9,648)	(35,173)

Reconciliation to total assets per statement of financial position

	2013	2014	2015
	£000	*£000*	*£000*
Total assets for reportable segments	19,166	17,541	14,735
Unallocated amounts:			
All current assets excluding trade receivables	32,697	23,165	17,809
All non-current assets	30,286	28,039	16,976
Consolidated total assets	82,149	68,745	49,520

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

Revenue by product

	2013	2014	2015
	£000	*£000*	*£000*
Interactive display systems and accessories	132,072	112,647	103,257
Learner response systems and assessment	9,086	5,527	3,864
	141,158	118,174	107,121

Interactive display systems and accessories revenue by segment

	2013	2014	2015
	£000	*£000*	*£000*
North America	63,067	61,901	54,738
International	69,005	50,746	48,519
	132,072	112,647	103,257

Learner response systems and assessment revenue by segment

	2013	2014	2015
	£000	*£000*	*£000*
North America	6,027	4,006	1,910
International	3,059	1,521	1,954
	9,086	5,527	3,864

Revenue by country

	2013	**2014**	**2015**
	£000	*£000*	*£000*
United States	65,533	62,556	55,116
United Kingdom (Company's country of domicile)	12,651	11,903	15,593
Germany	6,824	3,832	4,289
France	5,793	3,939	4,128
Netherlands	2,866	2,317	2,303
China	2,928	3,018	2,005
Italy	2,036	2,619	1,931
Australia	1,302	1,037	1,918
Spain	1,564	2,146	1,889
India	1,735	1,325	1,747
Vietnam	2,441	3,093	1,457
Russia	5,574	3,639	1,451
Other countries	29,911	16,750	13,294
	141,158	118,174	107,121

Major customers

For 2015, there were two customers (*2014: two, 2013: none*) who individually represented in excess of 10% of Group revenues for the year; £20.3m (*2014: £18.0m*) of Group revenue (19%) was to an International distributor and £16.3m (*2014: £24.8m*) of Group revenue (15%) to a North American distributor.

Geographical locations

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

Non-current assets

	2013	**2014**	**2015**
	£000	*£000*	*£000*
United Kingdom	18,447	22,656	14,732
France	22	31	39
Germany	3	5	3
United States	1,499	1,496	1,068
China	1,989	1,487	758
	21,960	25,675	16,600

7 Revenue

	2013	2014	2015
	£000	*£000*	*£000*
Sales of goods	138,525	115,062	103,414
Services	2,633	3,112	3,707
	141,158	118,174	107,121

Services include maintenance and training.

8 Exceptional items

	2013	2014	2015
	£000	*£000*	*£000*
Exceptional costs			
Impairment of intangible assets	4,142	—	12,500
Reorganisation costs (including acquisition related costs)	125	1,932	3,512
	4,267	1,932	16,012
Exceptional income			
Reversal of trade receivable impairment (note 27)	674	977	421
Reversal of onerous lease provisions	—	474	131
Profit on disposal of tangible fixed assets	68	—	—
	742	1,451	552

Exceptional costs

The exceptional charge for the year was £16,012,000 *(2014: £1,932,000, 2013: £4,267,000)*, including a £12,500,000 writedown of the ClassFlow intangible development asset (derecognising the asset due to the revised strategy of go-to-market for ClassFlow to secure a wide user base) (see Note 15).

Reorganisation costs

Acquisition related costs were primarily professional fees incurred by the Group in respect of Digital Train Limited's acquisition of the Group. Remaining reorganisation costs in 2015 were payments to a former Director and other costs associated with a change in strategic direction following Digital Train Limited's acquisition of the Group.

Reorganisation costs in 2014 principally comprise the costs of substantial changes to the composition of the Executive Leadership Team, which include payments to a former Director, and the costs of a significant downsizing of the Seattle office in the United States.

In 2013, the impairment of intangible fixed assets of £4,142,000 represented the culmination of the software strategy rationalisation review that had commenced in Q4 2012.

Impairment of trade receivables

An exceptional impairment loss was recognised in 2012 related to one specific reseller. Full and final settlement of this debt was reached during 2015 and consequently, a £421,000 reversal of the impairment was appropriate. The remaining debtor has been written off and the provision utilised.

Onerous lease provisions

In 2015, the Group was able to reverse onerous lease provisions of £131,000 following the finalisation of liabilities in respect of 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 £nil (*2014: deferred tax credit of £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 £7,371,000 of payments in respect of exceptional costs (*2014: £2,130,000, 2013: £1,981,000*) and income of £421,000 (*2014: £977,000, 2013: £674,000*) 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:

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Reversal of exceptional impairment loss on trade receivables	(674)	(977)	(421)
Impairment loss on trade receivables	—	286	128
Reorganisation/acquisition costs	4,267	1,932	3,512
Research and development expensed as incurred	5,017	3,212	5,134

	2013	2014	2015
	£000	*£000*	*£000*
Auditor's remuneration:			
Statutory audit of the Group	160	164	186
Other audit related services	23	24	38
Total audit fees	183	188	224
Other services to the company and its subsidiaries:			
Tax advisory services	26	9	16
Other assurance services	—	—	218
All other services	3	—	—
Total auditor's remuneration	212	197	458

Operating expenses are analysed as follows:

	2013	2014	2015
	£000	*£000*	*£000*
Sales and marketing	28,326	26,595	25,579
Administrative	7,836	7,051	7,243
Total research and development expenditure	13,089	12,553	14,028
Less: capitalised development expenditure	(8,072)	(9,341)	(8,894)
Research and development (net)	5,017	3,212	5,134
Depreciation and impairment	3,250	2,515	2,885
Amortisation	6,879	5,419	4,064
Amortisation of acquired intangible assets	782	—	—
Exceptional costs	4,267	1,932	16,012
Exceptional income	(742)	(1,451)	(552)
Share-based payments	876	326	1,513
	56,491	45,599	61,878

10 **Personnel expenses**

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Wages and salaries	33,337	30,454	30,321
Social security contributions	3,319	2,955	3,223
Contributions to defined contribution pension plans	985	937	955
Share-based payments	876	326	1,513
	38,517	34,672	36,012

Payments to Directors made in respect of qualifying services are as follows:

	2013	*2014*	*2015*
	£000	*£000*	*£000*
Remuneration	1,202	857	810
Compensation for loss of office	—	274	248
Contributions to defined contribution pension plans	40	35	39
Share based payments	231	(95)	304
	1,473	1,071	1,401

Pension contributions were made on behalf of five Directors (*2014: three, 2013: two*) into defined contribution pension schemes.

Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (*2014:one, 2013: two*) are Directors, whose emoluments are discussed in note 30.

The aggregate emoluments in respect of the other three (*2014: four, 2013: three*) individuals are as follows:

	2013	*2014*	*2015*
	£000	*£000*	*£000*
Wages and salaries	602	565	518
Discretionary bonus	379	102	—
Compensation for loss of office	—	160	83
Contributions to defined contribution pension plans	67	43	42
Share based payments	245	123	402
	1,293	993	1,045

The emoluments of the three *(2014: four, 2013: three)* individuals with the highest emoluments are within the following bands:

	2013	**2014**	**2015**
£	*No. of individuals*	*No. of individuals*	*No. of individuals*
Nil- 87,126	—	—	—
87,127-130,689	—	—	—
130,690-174,252	—	—	—
174,253-217,816	—	1	—
217,817-261,379	—	2	—
261,380-304,942	—	1	—
304,943-348,505	—	—	2
348,506-392,068	1	—	—
392,069-435,631	1	—	1
435,632-479,194	—	—	—
479,195-522,757	1	—	—

11 Finance income and expense

Amounts recognised in profit or loss

	2013	2014	2015
	£000	*£000*	*£000*
Interest income on bank deposits	48	20	10
Net change in fair value of financial assets at fair value through profit or loss	144	—	—
Finance income	192	20	10
Interest and commitment fee expense on secured loan facility	(208)	(254)	(644)
Interest on NetDragon group loans	—	—	(60)
Amortisation of costs of obtaining loan facility	(252)	(221)	(221)
Other interest payable	—	—	(276)
Foreign exchange losses	(533)	(1,233)	(231)
Net change in fair value of financial assets at fair value through profit or loss	—	(58)	(105)
Finance expense	(993)	(1,766)	(1,537)
Net finance expense recognised in profit or loss	(801)	(1,746)	(1,527)
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	20	10
Total interest expense on financial liabilities	(460)	(475)	(925)

Amounts recognised in other comprehensive income

	2013	2014	2015
	£000	*£000*	*£000*
Foreign currency translation differences — foreign operations	291	1,182	(204)
Net (loss)/gain on net investments in foreign operations	(209)	694	563
	82	1,876	359

	2013	2014	2015
	£000	*£000*	*£000*
Recognised in:			
Translation reserve (FCTR)	82	1,876	359

12 **Taxation**

Amounts recognised in profit or loss

	2013	2014	2015
	£000	*£000*	*£000*
Current tax expense			
Current period	1,112	910	675
Adjustment for prior periods	(717)	51	26
Current tax expense	395	961	701
Deferred tax expense			
Origination and reversal of temporary differences	(2,075)	5,898	1,780
Reduction in tax rates	626	—	—
Adjustments for prior periods	145	(5)	97
Deferred tax (credit)/expense	(1,304)	5,893	1,877
Total tax (credit)/expense	(909)	6,854	2,578

Amounts recognised directly in equity

	2013	2014	2015
	£000	*£000*	*£000*
Share-based payments	79	69	111

Reconciliation of effective tax rate

	2013	2013	2014	2014	2015	2015
	rate	*£000*	*rate*	*£000*	*rate*	*£000*
Loss excluding income tax		(6,706)		(9,648)		(35,173)
Income tax credit using the Company's domestic tax rate	23.3%	(1,560)	21.5%	(2,074)	20.2%	(7,105)
Effect of tax rates in foreign jurisdictions	(6.5%)	434	(1.6%)	153	1.3%	(447)
Reduction in tax rate	(15.3%)	1,025	5.1%	(489)	(0.0%)	6
Non-deductible expenses	(5.1%)	344	(0.5%)	48	(1.6%)	547
Tax incentives	1.7%	(113)	1.1%	(109)	0.0%	(12)
Change in recognised temporary differences	0.0%	—	(62.2%)	5,998	(5.7%)	2,000
Change in unrecognised temporary differences	6.0%	(404)	(34.2%)	3,310	(21.2%)	7,466
Utilisation of tax losses not previously recognised	1.0%	(63)	0.3%	(29)	0.0%	—
Over provided in prior periods	8.5%	(572)	(0.5%)	46	(0.3%)	123
Total income tax (credit)/expense	13.6%	(909)	(71.0%)	6,854	(7.3%)	2,578

Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and to 20% (effective 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015.

This will reduce the company's future current tax charge accordingly. The deferred tax asset at the reporting date has been calculated based on these rates.

Movement in recognised deferred tax balances

	Balance at 1 January 2013	Recognised in profit or loss	Recognised directly in equity	Balance at 31 December 2013	Recognised in profit or loss	Recognised directly in equity	Balance at 31 December 2014
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£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 carried forward	5,550	409	—	5,959	(5,592)	—	367
	7,101	1,304	(79)	8,326	(5,893)	(69)	2,364

Movement in recognised deferred tax balances

	Balance at 1 January 2015	Recognised in profit or loss	Recognised directly in equity	Balance at 31 December 2015
	£000	*£000*	*£000*	*£000*
Property, plant and equipment	1,951	(1,897)	—	54
Intangible assets	(2,649)	2,649	—	—
Financial assets at fair value through profit or loss	(21)	21	—	—
Inventories	1,136	(1,128)	—	8
Lease rentals	37	(37)	—	—
Other items	1,543	(1,319)	(111)	113
Tax losses carried forward	367	(166)	—	201
	2,364	(1,877)	(111)	376

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets			Liabilities			Net		
	2013	**2014**	**2015**	**2013**	**2014**	**2015**	**2013**	**2014**	**2015**
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Property, plant and equipment	2,070	2,338	54	(468)	(387)	—	1,602	1,951	54
Intangible assets	—	—	—	(1,287)	(2,649)	—	(1,287)	(2,649)	—
Financial assets at fair value through profit or loss	—	—	—	(33)	(21)	—	(33)	(21)	—
Inventories	745	1,136	8	—	—	—	745	1,136	8
Lease rentals	54	37	—	—	—	—	54	37	—
Other items	1,552	1,596	113	(266)	(53)	—	1,286	1,543	113
Tax losses carried forward	5,959	367	201	—	—	—	5,959	367	201
Tax assets/(liabilities)	10,380	5,474	376	(2,054)	(3,110)	—	8,326	2,364	376
Set off of tax	(2,054)	(3,110)	—	2,054	3,110	—	—	—	—
Net tax assets	8,326	2,364	376	—	—	—	8,326	2,364	376

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):

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Tax losses	4,376	47,411	73,636
Deductible temporary differences	743	2,238	8,430
	5,119	49,649	82,066

The unrecognised deferred tax in respect of tax losses primarily relates to the Group's UK and US subsidiaries. Neither the remaining tax losses nor the deductible temporary differences expire under current tax legislation.

In 2015, the Group derecognised brought forward deferred tax assets of £2,176,000 in respect of timing differences in its US subsidiary. It has also not recognised the deferred tax effect of current year losses incurred in its UK and US subsidiaries. Following a review of forecasts, management have concluded that the UK and US subsidiaries are not expected to utilise a significant amount of the tax losses in the short term.

In 2014, the Group derecognised brought foward deferred tax assets of £5,579,000 in respect of losses in its UK subsidiary.

At 31 December 2015 a deferred tax liability for temporary differences of £25,425,000 (*2014: £23,737,000, 2013: £21,458,000*) relating to an investment in a subsidiary was not recognised *(2014: £nil, 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.

13 **Dividends per ordinary share**

The Directors did not pay an interim dividend (*2014: £nil, 2013: £nil*).

The Company is not in a position to pay a dividend (*2014: £nil, 2013: £nil*).

14 **Property, plant and equipment**

	Freehold land and buildings	**Plant and equipment**	**Total**
	£000	*£000*	*£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
Additions	12	731	743
Disposals	—	(859)	(859)
Assets reclassified as held for sale	(653)	—	(653)
Effect of movements in exchange rates	47	92	139
Balance at 31 December 2015	3,563	21,327	24,890

	Freehold land and buildings	Plant and equipment	Total
	£000	*£000*	*£000*
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
Depreciation for the year	255	1,881	2,136
Impairment loss	35	714	749
Disposals	—	(832)	(832)
Assets reclassified as held for sale	(373)	—	(373)
Effect of movements in exchange rates	31	64	95
Balance at 31 December 2015	2,250	17,511	19,761
Carrying amounts			
At 31 December 2013	1,943	5,798	7,741
At 31 December 2014	1,855	5,679	7,534
At 31 December 2015	1,313	3,816	5,129

Security

Assets with a value of £4.6m (*2014: £6.0m, 2013: £5.8m*) form part of the security against the loan facility as described in note 24.

Assets held for sale

Assets held for sale of £280,000 *(2014: £nil, 2013: £nil)* relate to a property which was marketed for sale at the year end and subsequently sold in January 2016.

15 **Intangible assets**

	Goodwill	Development Costs	Customer Contracts	Total
	£000	*£000*	*£000*	*£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
Additions arising from internal development	—	8,894	—	8,894
External additions	—	1,000	—	1,000
Effect of movements in exchange rates	—	81	10	91
Balance at 31 December 2015	140,503	62,607	203	203,313
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
Impairment loss	—	12,500	—	12,500
Amortisation	—	4,064	—	4,064
Effect of movements in exchange rates	—	81	10	91
Balance at 31 December 2015	140,503	51,136	203	191,842
Carrying amounts				
At 31 December 2013	—	14,219	—	14,219
At 31 December 2014	—	18,141	—	18,141
At 31 December 2015	—	11,471	—	11,471

Significant intangible assets

As at 31 December 2015, the Group's most significant intangible asset, held within development costs, is its next generation interactive display (net book value £6.2m as at 31 December 2015). This asset has a remaining amortisation period of three years. An impairment loss of £12.5m was recognised to write down the ClassFlow intangible asset to zero following a change in the go-to-market strategy. Going forward, further ClassFlow expenditure will be expensed as incurred.

Categorisation of intangible assets

The carrying value of development costs at 31 December 2013, 2014 and 2015 all relate to internally generated assets and their enhancements from acquiring related intellectual property. 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:

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Company			
At 1 January	19,941	20,807	21,112
Additions in respect of share-based payments	866	305	1,553
Net book value at 31 December	20,807	21,112	22,665

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**

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Current assets			
Financial assets designated at fair value through profit and loss	163	105	—

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

18 Inventories

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Raw materials and consumables	348	274	156
Work in progress	85	73	42
Finished goods	8,237	11,660	11,244
	8,670	12,007	11,442

Inventories recognised as an expense during the year and included in cost of sales amounted to £58,717,000 (*2014: £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).

The inventory provision at 31 December 2015 was £2,644,000 (*2014: £1,609,000, 2013: £1,892,000*). Inventory provisions of £1,142,000 were created in the year (*2014: creation of £58,000, 2013: creation of £338,000*) and £107,000 was utilised.

19 Trade and other receivables

	2013	2014	2015
	£000	*£000*	*£000*
Gross trade receivables	22,513	19,834	15,123
Less: allowance for impairment	(3,347)	(2,293)	(388)
Net trade receivables	19,166	17,541	14,735
Other receivables	2,934	2,614	880
Prepayments	2,501	2,517	1,434
	24,601	22,672	17,049
Non-current	—	—	—
Current	24,601	22,672	17,049
	24,601	22,672	17,049

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

Trade receivables — ageing analysis

At the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	2013	2014	2015
	£000	*£000*	*£000*
Within 1 month	12,924	13,814	8,498
1 to 3 months	5,178	3,381	5,520
3 to 6 months	332	142	692
Over 6 months but under 1 year	732	204	25
	19,166	17,541	14,735

20 **Cash and cash equivalents**

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Bank balances	17,591	4,706	2,613

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 2014**	**Ordinary Shares 2015**
In thousands of shares			
Share capital allotted and in issue at 1 January and 31 December	200,000	203,200	203,200

Kleinwort Benson (Jersey) Trustees Limited as trustees of the Chalkfree Employee Benefit Trust (EBT) previously held shares on trust for the Company which were primarily issued to employees to satisfy the Company's obligations in relation to its share schemes. These shares were categorised as Treasury Shares. Following the acquisition of Promethean World Limited by Digital Train Limited, all EBT held shares were sold to the acquirer. At 31 December 2015, the EBT held no shares in the Company *(2014: 1,489,769 shares, 2013: 342,245 shares)*.

On 25 March 2014, the Company had 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 2015, no shares (*2014: £nil, 2013 £nil*) were repurchased and subsequently cancelled.

Share incentive schemes

Details of share incentive schemes in existence at 31 December 2015 are disclosed in note 26.

Capital reserve

The capital reserve arose as a result of the Group reorganisation in 2010, where Promethean World Limited 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.

Distributability of reserves

At 31 December 2013, 2014 and 2015, the aggregate amount of reserves for distribution to equity shareholders of the Company was £nil.

22 **Trade and other payables**

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Current			
Trade payables	9,847	16,546	19,468
Accrued expenses	9,292	5,166	6,055
Deferred revenue	6,798	6,407	6,215
Amount due to fellow subsidiary	—	—	10,191
	25,937	28,119	41,929

The amount due to fellow subsidiary is unsecured, has an interest rate of 5% per annum and is repayable 12 months from the draw down date, in November 2016.

Trade payables — ageing analysis

At the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Within 1 month	6,292	7,823	7,517
1 to 3 months	3,484	7,520	5,772
3 to 6 months	27	1,012	5,926
Over 6 months but under 1 year	44	191	253
	9,847	16,546	19,468

23 **Provisions**

	As at 1 January 2013	Created in the year	Reversed in the year	Utilised in the year	As at 31 December 2013	Current	Non-current
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£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

	As at 1 January 2014	Created in the year	Reversed in the year	Utilised in the year	As at 31 December 2014	Current	Non-current
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£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

	As at 1 January 2015	Created in the year	Reversed in the year	Utilised in the year	As at 31 December 2015	Current	Non-current
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Warranty	2,805	985	—	(1,102)	2,688	2,688	—
Reorganisation provisions:							
Restructuring	72	1,178	—	(898)	352	352	—
Onerous lease	461	—	(131)	(104)	226	15	211
Provisions	3,338	2,163	(131)	(2,104)	3,266	3,055	211

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. In 2015, the Group was able to reverse onerous lease provisions of approximately £0.1m following the finalisation of liabilities in respect of two premises.

Approximate outflows from the remaining onerous leases are £0.2m in 2017.

24 **Loans and borrowings**

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Secured loans — repayable within 1 year	—	—	2,615

The Group has a secured loan facility agreement for up to £25m arranged by Burdale Financial Limited with Wells Fargo Capital Finance. This asset-based lending facility runs to 30 September 2017. This facility was drawn to the value of £3.0m as at 31 December 2015 *(2014:£nil, 2013:£nil)*. Capitalised arrangement fees of £0.4m *(2014:£nil, 2013:£nil)* are offset against the balance above and are being released over the life of the facility.

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 £955,000 (*2014: £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

Prior to the Group's acquisition by Digital Train Limited, the Group had 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.

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 were eligible to participate in the PRW CSOP at the discretion of the Remuneration Committee.

Promethean Performance Share Plan 2011 (PSP)

The PSP provides for the grant, to eligible employees, of options to acquire shares in Promethean World Limited 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 were eligible to participate in the PSP at the discretion of the Remuneration Committee.

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.

On 20 February 2015, 130,000 equity settled options were granted under the PSP SARs with an exercise price of 23.25p per share.

Following the acquisition of the Group by Digital Train Limited, all unexercised options either vested or lapsed in accordance with the offer for the Group. As at 31 December 2015, there were no unexercised options outstanding.

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:

	PRW CSOP (granted 26.03.13)	**PSP (granted 26.03.13)**	**PSP SARs (granted 28.06.13)**	**PSP SARs (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 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 2015 were as follows:

	PSP SARs (granted 20.02.15)
Fair value at grant date (pence)	9.50
Share price at grant date (pence)	23.25
Exercise price (pence)	23.25
Expected volatility	61%
Option life (expected)	4.0 years
Dividend yield	0.0%
Risk-free interest rate	1.03%

Income statement charge

The share-based payment charge for the year was £1,513,000 (*2014: £326,000, 2013: £876,000*) comprising £1,553,000 (*2014: £305,000, 2013:£866,000*) in respect of equity settled awards and £40,000 credit (*2014: £21,000 charge, 2013: £10,000 charge*) in respect of cash settled awards.

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 2013	Granted in the year	Exercised in the year	Lapsed in the year	Options in issue as at 31 December 2013	Exercisable as at 31 December 2013	Option price per share	Weighted average share price at date of exercise	Weighted Average contractual life remaining
	(000s)	*(000s)*	*(000s)*	*(000s)*	*(000s)*	*(000s)*	*(pence)*	*(pence)*	*(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

	Options in issue as at 1 January 2014	Granted in the year	Exercised in the year	Lapsed in the year	Options in issue as at 31 December 2014	Exercisable as at 31 December 2014	Option price per share	Weighted average share price at date of exercise	Weighted average contractual life remaining
	(000s)	*(000s)*	*(000s)*	*(000s)*	*(000s)*	*(000s)*	*(pence)*	*(pence)*	*(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 2015	Granted in the year	Exercised in the year	Lapsed in the year	Options in issue as at 31 December 2015	Exercisable as at 31 December 2015	Option price per share	Weighted average share price at date of exercise	Weighted average contractual life remaining
	(000s)	*(000s)*	*(000s)*	*(000s)*	*(000s)*	*(000s)*	*(pence)*	*(pence)*	*(years)*
2009 Chalkfree CSOP	264	—	(264)	—	—	—	5.25	40.0	n/a
2010 Chalkfree CSOP	414	—	(414)	—	—	—	5.25	40.0	n/a
IPO Plan	46	—	(43)	(3)	—	—	—	22.8	n/a
PRW CSOP 2010	34	—	—	(34)	—	—	125.00	n/a	n/a
PSP 2011	689	—	(689)	—	—	—	—	39.3	n/a
PRW CSOP 2011	677	—	—	(677)	—	—	59.75	n/a	n/a
PSP 2012 deferred SMT bonus	3	—	(3)	—	—	—	—	40.0	n/a
PSP April 2012	1,070	—	(836)	(234)	—	—	—	38.5	n/a
PSP October 2012	1,570	—	(1,420)	(150)	—	—	—	40.0	n/a
PRW CSOP April 2012	70	—	—	(70)	—	—	51.63	n/a	n/a
PRW CSOP October 2012	170	—	(130)	(40)	—	—	17.37	40.0	n/a
PSP March 2013	1,204	—	(1,182)	(22)	—	—	—	39.3	n/a
PSP June 2013	217	—	(30)	(187)	—	—	—	40.0	n/a
PRW CSOP March 2013	90	—	(90)	—	—	—	16.25	40.0	n/a
PRW CSOP June 2013	180	—	(90)	(90)	—	—	12.88	40.0	n/a
PRW CSOP May 2014	90	—	(90)	—	—	—	32.13	40.0	n/a
PSP 2014	1,330	—	(1,330)	—	—	—	—	40.0	n/a
PSP SARs September 2014	8,370	—	(7,998)	(372)	—	—	31.25	40.0	n/a
PSP SARs November 2014	1,355	—	(1,355)	—	—	—	27.00	40.0	n/a
PSP SARs February 2015	—	130	(130)	—	—	—	23.25	40.0	n/a
Total options	17,843	130	(16,094)	(1,879)	—	—	n/a	39.8	n/a

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 2013	Granted in the year	Exercised in the year	Lapsed in the year	Options in issue as at 31 December 2013	Exercisable as at 31 December 2013	Option price per share	Weighted average share price at date of exercise	Weighted average contractual life remaining
	(000s)	*(000s)*	*(000s)*	*(000s)*	*(000s)*	*(000s)*	*(pence)*	*(pence)*	*(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

	Options in issue as at 1 January 2014	Granted in the year	Exercised in the year	Lapsed in the year	Options in issue as at 31 December 2014	Exercisable as at 31 December 2014	Option price per share	Weighted average share price at date of exercise	Weighted average contractual life remaining
	(000s)	*(000s)*	*(000s)*	*(000s)*	*(000s)*	*(000s)*	*(pence)*	*(pence)*	*(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 2015	Granted in the year	Exercised in the year	Lapsed in the year	Options in issue as at 31 December 2015	Exercisable as at 31 December 2015	Option price per share	Weighted average share price at date of exercise	Weighted average contractual life remaining
	(000s)	*(000s)*	*(000s)*	*(000s)*	*(000s)*	*(000s)*	*(pence)*	*(pence)*	*(years)*
IPO Plan	15	—	(10)	(5)	—	—	—	23.3	n/a
PRW CSOP 2011	90	—	—	(90)	—	—	59.75	n/a	n/a
PSP 2012 April	50	—	(50)	—	—	—	—	40.0	n/a
PSP 2013 March	40	—	(40)	—	—	—	—	40.0	n/a
SARs 2014 September	805	—	(805)	—	—	—	31.25	40.0	n/a
SARs 2014 November	85	—	(85)	—	—	—	27.00	40.0	n/a
	1,085	—	(990)	(95)	—	—	n/a	39.8	n/a

27 **Financial instruments**

Fair values

Fair values versus carrying amounts

The carrying amounts of the Group's financial statements carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013, 2014 and 2015.

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

	2013 Carrying amount	2013 Fair value	2014 Carrying amount	2014 Fair value	2015 Carrying amount	2015 Fair value
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Trade receivables	19,166	19,166	17,541	17,541	14,735	14,735
Other receivables	2,934	2,934	2,614	2,614	880	880
Cash and cash equivalents	17,591	17,591	4,706	4,706	2,613	2,613
Forward exchange contracts — assets	163	163	105	105	—	—
Trade payables	(9,847)	(9,847)	(16,546)	(16,546)	(19,468)	(19,468)
	30,007	30,007	8,420	8,420	(1,240)	(1,240)

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:

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Financial assets at fair value through profit or loss	163	105	—
Trade receivables	19,166	17,541	14,735
Other receivables	2,934	2,614	880
Cash and cash equivalents	17,591	4,706	2,613
	39,854	24,966	18,228

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

	2013	**2014**	**2015**
	£000	*£000*	*£000*
North America	5,848	9,223	5,877
International	13,318	8,318	8,858
	19,166	17,541	14,735

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

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Wholesale customers	18,881	17,202	14,139
Local authorities/schools and colleges	285	339	596
	19,166	17,541	14,735

Impairment losses

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

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Not past due	16,555	16,156	13,193
Past due 1-30 days	1,722	1,054	541
Past due 31-120 days	69	146	1,001
Past due more than 120 days	820	185	—
	19,166	17,541	14,735

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

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Balance at 1 January	4,034	3,347	2,293
Impairment loss recognised	—	286	128
Exceptional impairment loss reversed	(674)	(977)	(421)
Amounts written off	(13)	(363)	(1,612)
Balance at 31 December	3,347	2,293	388

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 £0.4m (*2014: £1.0m, 2013: £0.7m*) relates to a provision created in 2012 of £3.1m relating to one specific reseller. Full and final settlement of this debt was reached during 2015 and consequently, £0.4m of the provision was released to reflect this. The remaining debtor has been written off and the provision utilised.

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:

2013

	Carrying amount	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Non-derivative financial liabilities							
Trade payables	9,847	9,847	9,847	—	—	—	—

2014

	Carrying amount	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Non-derivative financial liabilities							
Trade payables	16,546	16,546	16,546	—	—	—	—

2015

	Carrying amount	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Non-derivative financial liabilities							
Trade payables	19,468	19,468	19,468	—	—	—	—

At 31 December 2013, 2014 and 2015, no derivatives were designated as cash flow hedges.

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 and in local currency):

	2013				2014				2015			
	GBP	USD	EUR	CNY	GBP	USD	EUR	CNY	GBP	USD	EUR	CNY
Trade receivables	1,784	17,132	7,012	11,502	1,261	18,539	5,555	—	371	15,116	5,375	1,827
Trade payables	(1,564)	(10,646)	(54)	(17,970)	(1,150)	(17,796)	(248)	(35,808)	(838)	(21,595)	(310)	(36,714)
Gross statement of financial position exposure	220	6,486	6,958	(6,468)	111	743	5,307	(35,808)	(467)	(6,479)	5,065	(34,887)
Forward exchange contracts buy/(sell)	9,750	—	(11,500)	—	4,389	—	(5,500)	—	—	—	—	—
Net exposure	9,970	6,486	(4,542)	(6,468)	4,500	743	(193)	(35,808)	(467)	(6,479)	5,065	(34,887)

The following significant exchange rates applied during the year:

	Average rate			Reporting date spot rate		
	2013	2014	2015	2013	2014	2015
USD	1.5580	1.6528	1.5331	1.6491	1.5534	1.4808
EUR	1.1790	1.2508	1.3829	1.1979	1.2780	1.3553
CNY	9.7084	10.0215	9.5534	10.0827	9.5590	9.6159

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 as it is considered a reasonable approximation of the range in which GBP may fluctuate against the USD and EUR.

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.

	Equity	**Profit/(loss)**
	£000	*£000*
31 December 2013		
USD	(4,160)	(982)
EUR	(943)	(629)
CNY	(2,017)	(74)
31 December 2014		
USD	(914)	1,164
EUR	(683)	(434)
CNY	(2,224)	(48)
31 December 2015		
USD	(350)	1,519
EUR	(669)	(430)
CNY	(2,131)	159

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

As at 31 December 2015, the Group had drawn two forms of interest-bearing financial liabilities, its secured loan from Wells Fargo Capital Finance and the short term loan of $15m from Best Assistant Education Online Limited, an intermediate parent company of Promethean World Limited.

At 31 December 2014 and 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 interest rate hedging arrangements have been entered into during 2015, 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	
	100 bp Increase	**100 bp Decrease**	**100 bp Increase**	**100 bp Decrease**
	£000	*£000*	*£000*	*£000*
2013				
Variable rate instruments	176	(81)	176	(81)
Cash flow sensitivity (net)	176	(81)	176	(81)
2014				
Variable rate instruments	47	(13)	47	(13)
Cash flow sensitivity (net)	47	(13)	47	(13)
2015				
Variable rate instruments	(46)	60	(46)	60
Cash flow sensitivity (net)	(46)	60	(46)	60

28 **Operating leases**

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

	2013	**2014**	**2015**
	£000	*£000*	*£000*
In less than one year	1,929	1,947	1,397
Between one and five years	2,399	2,993	1,751
In more than five years	139	—	—
	4,467	4,940	3,148

Operating lease rentals expensed in the Consolidated Income Statements were as follows:

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Operating lease Charge	2,099	1,859	1,809

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

The buildings leases cover business premises in the UK, US, China, France and Germany and also a sales office in 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 23).

29 Capital commitments

At 31 December 2015, the Group had capital commitments of £74,000 (*2014: £110,000, 2013: £310,000*). These commitments are expected to be settled in the following financial year.

30 Related parties

Transactions with key management personnel

Loans to Directors

During the relevant periods to 31 December 2015, 2014 and 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:

	2013	**2014**	**2015**
	£000	*£000*	*£000*
Short-term employee benefits	3,482	2,680	2,710
Post-employment benefits	146	126	120
Termination benefits	—	587	330
Share-based payments	621	136	1,263
	4,249	3,529	4,423

During 2015, the Group implemented a number of changes within the senior leadership team principally related to the Group being acquired by Digital Train Limited. Key management personnel now includes both Board members and members of the Executive Leadership Team. During 2015, five new members were appointed and seven members left the business.

As at 31 December 2015, there were 15 key management team members (*2014: 17, 2013: 16*).

Directors' emoluments are as follows:

2013 Directors' remuneration

	Salary/fees	Benefits	Bonus	CFLO	Pension	SBP	TOTAL
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Graham Howe	105	1	—	—	—	—	106
Jim Marshall[1]	256	18	218	—	14	104	610
Neil Johnson	208	21	179	—	26	127	561
Philip Rowley	45	—	—	—	—	—	45
Lord Puttnam	73	—	—	—	—	—	73
Tony Cann	35	—	—	—	—	—	35
Dante Roscini	43	—	—	—	—	—	43
	765	40	397	—	40	231	1,473

1 Jim Marshall's enrolments are paid in US Dollars and are translated in the above table at a weighted average exchange rate for the year.

2014 Directors' remuneration

	Salary/fees	Benefits	Bonus	CFLO	Pension	SBP	TOTAL
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Philip Rowley	101	—	—	—	—	—	101
Jim Marshall[1]	243	15	39	—	13	56	366
Ian Baxter	134	9	16	—	18	18	195
Neil Johnson[2]	35	2	—	274	4	(169)	146
Graham Howe	81	1	—	—	—	—	82
Lord Puttnam	75	—	—	—	—	—	75
Judy Verses[3]	38	—	—	—	—	—	38
Jackie Yeaney[3]	39	—	—	—	—	—	39
Tony Cann[4]	13	—	—	—	—	—	13
Dante Roscini[4]	16	—	—	—	—	—	16
	775	27	55	274	35	(95)	1,071

1. Jim Marshall's emoluments are paid in US Dollars and are translated in the above table at a weighted average exchange rate for the year

2. Neil Johnson's salary, benefits and pension contributions disclosed above were paid up to and including his ceasing to be a director on 27 February 2014. Payments to Neil Johnson following his ceasing to be a director totalled £274,000 and included: payments for employment from 27 February to 30 April 2014 (£54,000) and a lump sum payment on termination (£220,000).

3. Appointed to the Board on 1 March 2014.

4. On 8 May 2014 both Tony Cann and Dante Roscini retired as Non-Executive Directors.

2015 Directors' remuneration

	Salary/fees	Benefits	Bonus	CFLO	Pension	SBP	TOTAL
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Simon Leung[1]	—	—	—	—	—	—	—
Philip Rowley[2, 3]	93	—	—	33	—	—	126
Jim Marshall[4]	263	9	—	—	14	197	483
Ian Baxter[5]	133	9	—	215	23	107	487
Louise Ward[6]	22	5	—	—	—	—	27
Ian Curtis[1]	19	1	5	—	1	—	26
John Pilkington[1]	10	1	—	—	1	—	12
Graham Howe[2]	49	1	23	—	—	—	73
Lord Puttnam[2]	54	—	15	—	—	—	69
Judy Verses[2]	33	—	15	—	—	—	48
Jackie Yeaney[2]	34	—	16	—	—	—	50
	710	26	74	248	39	304	1,401

1. Appointed as a Director on 17 November 2015.

2. Resigned as a Non-Executive Director as at 17 September 2015

3. Compensation for loss of office (CFLO) was paid to the Non-Executive Chairman following his resignation as a director on 17 September 2015.

4. Resigned as a statutory Director on 18 November 2015, but remains CEO of the Promethean Group. Jim Marshall's emoluments are paid in US Dollars and are translated in the above table at a weighted average exchange rate for the year.

5. Resigned as a Director on 3 November 2015

6. Appointed a Director on 28 October 2015

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)		
	Year Ended 2013	**Year Ended 2014**	**Year Ended 2015**	**Year Ended 2013**	**Year Ended 2014**	**Year Ended 2015**
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Whitebirk Finance Limited	(120)	(120)	(120)	(70)	(40)	(40)

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.

In November 2015, Promethean Limited received a $15m interest-bearing short term loan from Best Assistant Education Online Limited, an intermediate parent company. The interest rate applicable to the loan is 5%.

31 Group entities

Significant subsidiaries as at 31 December 2015

Subsidiary undertaking	Ordinary shares Country of registration	Principal activity	31 Dec 2013	31 Dec 2014	31 Dec 2015	Statutory auditor
Chalkfree Limited	England and Wales	Holding company	100%	100%	100%	KPMG UK
Promethean (Holdings) Ltd	England and Wales	Holding company	100%	100%	100%	KPMG UK
Promethean Limited	England and Wales	Distributor of electronic equipment	100%	100%	100%	KPMG UK
Promethean GmbH	Germany	Distributor of electronic equipment	100%	100%	100%	*
Promethean SAS	France	Distributor of electronic equipment	100%	100%	100%	KPMG France
Promethean Inc.	USA	Distributor of electronic equipment	100%	100%	100%	*
Promethean Technology (Shenzhen)Limited	China	Manufacturer and distributor of electronic equipment	100%	100%	100%	KPMG China
Promethean World Inc.[1]	USA	Non-trading	100%	100%	100%	*
Promethean Technology Ltd[1]	England and Wales	Non-trading	100%	100%	100%	*

1. Dormant companies

* No statutory audit required

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

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

32 **Company level statements of financial position**

	Note	**2013**	**2014**	**2015**
		£000	*£000*	*£000*
Assets				
Investments	16	20,807	21,112	22,665
Total non-current assets		20,807	21,112	22,665
Trade and other receivables		56,588	56,367	56,146
Cash and cash equivalents		8	5	—
Total current assets		56,596	56,372	56,146
Total assets		77,403	77,484	78,811
Liabilities				
Trade and other payables		(16,161)	(16,161)	(16,157)
Total current liabilities		(16,161)	(16,161)	(16,157)
Net assets		61,242	61,323	62,654
Equity				
Share capital	21	20,000	20,320	20,320
Share premium		99,796	99,796	99,796
Retained earnings		(58,554)	(58,793)	(57,462)
Total equity (all attributable to equity holders of the Company)		61,242	61,323	62,654

33 **Company level statements 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 of the Company				
Contributions and distributions				
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 of the Company				
Contributions and distributions				
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

	Share Capital *£000*	Share Premium *£000*	Retained earnings *£000*	Total equity *£000*
Balance as at 1 January 2015	20,320	99,796	(58,793)	61,323
Total comprehensive income for the year				
Loss for the year	—	—	(222)	(222)
Transactions with owners of the Company				
Contributions and distributions				
Share-based payments	—	—	1,553	1,553
Balance at 31 December 2015	20,320	99,796	(57,462)	62,654

34 Immediate and ultimate controlling party

At 31 December 2015, the Directors consider the immediate parent to be Digital Train Limited, a company incorporated in the British Virgin Islands.

At 31 December 2015, the Directors consider the ultimate controlling party to be NetDragon Websoft Inc., a company incorporated in the Cayman Islands, listed on the Main Board of the Hong Kong Stock Exchange. This entity produces consolidated financial statements available for public use.

35 Events after the Balance Sheet date

On 8 March 2016, Best Assistant Education Online Limited (a subsidiary of NetDragon Websoft Inc.) granted an additional loan facility of US$20m to Promethean Limited. The loan is unsecured, has an interest rate of 5% per annum and is repayable 12 months from the draw down date.

C POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to date of issue of the Financial Information, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in the Financial Information. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
Amendments to IFRS 10 and IAS 28, Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
Amendments to IFRS 11, Accounting for acquisition of interests in joint operations	1 January 2016
Amendments to IAS 1, Disclosure initiative	1 January 2016
Amendments to IAS 16 and IAS 38, Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IFRS 9, Financial instruments	1 January 2018
IFRS 15, Revenue from contracts with customers	1 January 2018
IFRS 16, Leases	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position, except for the following:

IFRS 9 *Financial Instruments*

IFRS 9 replaces the existing guidance in IAS 39 *Financial instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 15 *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

IFRS 16 Leases

IFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular, IFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognised for all leases, subject to limited exceptions. It replaces IAS 17 Leases and the related interpretations including IFRIC 4 Determining whether an arrangement contains a lease.

The Group does not plan to early adopt the above new standards or amendments. With respect to IFRSs 9, 15 and 16, given the Group has not completed its assessment of their full impact on the Group, their possible impact on the Group's results of operations and financial position has not been quantified.

D SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Company and its subsidiaries comprising the Group in respect of any period subsequent to 31 December 2015. No dividend or distribution has been declared or made by any companies comprising the Group in respect of any period subsequent to 31 December 2015.

Yours faithfully,
KPMG LLP
1 St Peter's Square
Manchester
M2 3AE
United Kingdom

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

A. BASIS OF PREPARATION

The following is an illustrative and unaudited pro forma financial information of the Group (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, assuming the Acquisition, which was completed on 2 November 2015, was instead completed on 31 December 2015 or 1 January, for pro forma purpose only, as detailed below.

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 31 December 2015 for the unaudited pro forma consolidated statement of financial position, and as if the Acquisition had taken place on 1 January 2015 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 31 December 2015 or at any future date or results and cash flows of the Group for the year ended 31 December 2015 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 2015.

The unaudited pro forma consolidated statement of financial position of the Group as at 31 December 2015 is prepared as if the Acquisition had taken place on 31 December 2015 and is based on the audited consolidated statement of financial position of the Group as at 31 December 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 for the year ended 31 December 2015 are prepared as if the Acquisition had taken place on 1 January 2015 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 2015, 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 31 DECEMBER 2015

	The Group	Adjustments	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 1*	*Note 2*		*Note 3*	*Note 5*	*Note 6*	
Non-current assets								
Property, plant and equipment	1,246,117	(49,320)	49,320	1,246,117	—	—	—	1,246,117
Prepaid lease payments	438,677	—	—	438,677	—	—	—	438,677
Investment properties	55,377	—	—	55,377	—	—	—	55,377
Intangible assets	953,950	(756,595)	110,307	307,662	648,421	—	—	956,083
Interests in associates	18,883	—	—	18,883	—	—	—	18,883
Available-for-sale investments	5,000	—	—	5,000	—	—	—	5,000
Loan receivables	23,081	—	—	23,081	—	—	—	23,081
Trade receivables	18,112	—	—	18,112	—	—	—	18,112
Deposits made for acquisition of property, plant and equipment	18,302	—	—	18,302	—	—	—	18,302
Goodwill	334,839	(249,927)	—	84,912	308,008	—	—	392,920
Deferred tax assets	3,611	(3,611)	3,611	3,611	—	—	—	3,611
	3,115,949	(1,059,453)	163,238	2,219,734	956,429	—	—	3,176,163
Current assets								
Prepaid lease payments	2,733	—	—	2,733	—	—	—	2,733
Inventories	117,584	(110,024)	110,024	117,584	—	—	—	117,584
Loan receivables	3,397	—	—	3,397	—	—	—	3,397
Trade receivables	234,733	(141,488)	141,488	234,733	—	—	—	234,733
Amounts due from customers for contract work	4,339	—	—	4,339	—	—	—	4,339
Other receivables, prepayments and deposits	115,918	(22,252)	22,252	115,918	—	—	—	115,918
Amounts due from related companies	1,704	—	—	1,704	—	—	—	1,704
Amounts due from associates	11,204	—	—	11,204	—	—	—	11,204
Amount due from the Promethean Group	—	97,993	—	97,993	—	(97,993)	—	—
Held-for-trading investments	170,640	—	—	170,640	—	—	—	170,640
Tax recoverable	11,159	(11,159)	11,159	11,159	—	—	—	11,159
Pledged bank deposit	—	—	—	—	—	—	—	—
Bank deposits	583,091	—	—	583,091	—	—	—	583,091
Bank balances and cash	1,126,957	814,712	25,123	1,966,792	(820,242)	—	(19,593)	1,126,957
	2,383,459	627,782	310,046	3,321,287	(820,242)	(97,993)	(19,593)	2,383,459
Assets classified as held for sale	2,690	(2,690)	2,690	2,690	—	—	—	2,690
	2,386,149	625,092	312,736	3,323,977	(820,242)	(97,993)	(19,593)	2,386,149

	The Group	Adjustments	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 1*	*Note 2*		*Note 3*	*Note 5*	*Note 6*	
Current liabilities								
Trade and other payables	507,592	(245,241)	245,241	507,592	—	—	—	507,592
Amounts due to customers for contract work	993	—	—	993	—	—	—	993
Deferred income	85,039	(59,765)	59,765	85,039	—	—	—	85,039
Provisions	29,373	(29,373)	29,373	29,373	—	—	—	29,373
Amount due to a related company	2,254	—	—	2,254	—	—	—	2,254
Amounts due to associates	9,632	—	—	9,632	—	—	—	9,632
Amount due to the Group	—	—	97,993	97,993	—	(97,993)	—	—
Convertible preferred shares	278,499	—	—	278,499	—	—	—	278,499
Secured loans	25,142	(25,142)	25,142	25,142	—	—	—	25,142
Income tax payable	95,194	(9,967)	9,967	95,194	—	—	—	95,194
	1,033,718	(369,488)	467,481	1,131,711	—	(97,993)	—	1,033,718
Net current assets (liabilities)	1,352,431	994,580	(154,745)	2,192,266	(820,242)	—	(19,593)	1,352,431
Total assets less current liabilities	4,468,380	(64,873)	8,493	4,412,000	136,187	—	(19,593)	4,528,594
Non-current liabilities								
Deferred tax liabilities	149,993	(142,183)	—	7,810	142,653	—	—	150,463
Other payables	12,723	—	—	12,723	—	—	—	12,723
Provisions	2,027	(2,027)	2,027	2,027	—	—	—	2,027
	164,743	(144,210)	2,027	22,560	142,653	—	—	165,213
	4,303,637	79,337	6,466	4,389,440	(6,466)	—	(19,593)	4,363,381
Capital and reserves								
Share capital	36,726	—	195,395	232,121	(195,395)	—	—	36,726
Share premium	887,340	—	959,628	1,846,968	(959,628)	—	—	887,340
Other reserves	39,464	—	—	39,464	—	—	—	39,464
Statutory reserves	260,714	—	—	260,714	—	—	—	260,714
Capital reserve	10,035	—	903,798	913,833	(903,798)	—	—	10,035
Capital redemption reserve	5,709	—	—	5,709	—	—	—	5,709
Employee-share based compensation reserve	26,593	—	49,647	76,240	(49,647)	—	—	26,593
Dividend reserve	49,767	—	—	49,767	—	—	—	49,767
Treasury shares reserve	(3,253)	—	(8,549)	(11,802)	8,549	—	—	(3,253)
Revaluation reserve	22,449	—	—	22,449	—	—	—	22,449
Translation reserve	(48,018)	5,859	61,244	19,085	(61,244)	—	—	(42,159)
Retained profits	3,006,320	62,489	(2,154,697)	914,112	2,154,697	—	(16,879)	3,051,930
Equity attributable to owners of the Company	4,293,846	68,348	6,466	4,368,660	(6,466)	—	(16,879)	4,345,315
Non-controlling interests	9,791	10,989	—	20,780	—	—	(2,714)	18,066
	4,303,637	79,337	6,466	4,389,440	(6,466)	—	(19,593)	4,363,381

C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2015

	The Group	Adjustments	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*	*RMB'000*
	Note 1	*Note 1*	*Note 2*		*Note 4*	*Note 5*	*Note 6*	*Note 8*	
Revenue	1,272,197	(154,857)	1,021,709	2,139,049	—	—	—	—	2,139,049
Cost of revenue	(314,161)	124,382	(752,435)	(942,214)	(58,930)	—	—	—	(1,001,144)
Gross profit	958,036	(30,475)	269,274	1,196,835	(58,930)	—	—	—	1,137,905
Other income and gains	187,927	579	95	188,601	—	(589)	—	—	188,012
Selling and marketing expenses	(206,778)	43,350	(243,970)	(407,398)	—	—	—	—	(407,398)
Administrative expenses	(520,104)	36,648	(137,126)	(620,582)	—	—	(19,593)	—	(640,175)
Development costs	(446,229)	18,132	(206,944)	(635,041)	—	—	—	—	(635,041)
Other expenses	(24,092)	753	(1,240)	(24,579)	—	—	—	—	(24,579)
Share of losses of associates	(9,912)	—	—	(9,912)	—	—	—	—	(9,912)
Operating loss	(61,152)	68,987	(319,911)	(312,076)	(58,930)	(589)	(19,593)	—	(391,188)
Interest income on pledged bank deposits	6,018	—	—	6,018	—	—	—	—	6,018
Exchange loss on pledged bank deposits, secured bank borrowings and convertible preferred shares	(15,504)	—	—	(15,504)	—	—	—	—	(15,504)
Net gain (loss) on derivative financial instrument	(2,914)	391	(1,001)	(3,524)	—	—	—	—	(3,524)
Net gain on disposal of held-for-trading investments	876	—	—	876	—	—	—	—	876
Net loss on held-for-trading investments	(9,144)	—	—	(9,144)	—	—	—	—	(9,144)
Finance costs	(5,431)	2,282	(14,568)	(17,717)	—	589	—	—	(17,128)
Loss before taxation	(87,251)	71,660	(335,480)	(351,071)	(58,930)	—	(19,593)	—	(429,594)
Taxation	(100,675)	876	(24,591)	(124,390)	12,965	—	—	—	(111,425)
Loss for the year	(187,926)	72,536	(360,071)	(475,461)	(45,965)	—	(19,593)	—	(541,019)
Exchange differences arising on translation of foreign operations that may be reclassified subsequently to profit or loss	12,208	6,801	3,424	22,433	—	—	—	—	22,433
Gain on revaluation of properties that will not be reclassified subsequently to profit or loss	21,776	—	—	21,776	—	—	—	—	21,776
Total comprehensive expense for the year	(153,942)	79,337	(356,647)	(431,252)	(45,965)	—	(19,593)	—	(496,810)

	The Group	Adjustments	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*	*RMB'000*
	Note 1	*Note 1*	*Note 2*		*Note 4*	*Note 5*	*Note 6*	*Note 8*	
Loss for the year attributable to:									
Owners of the Company	(142,979)	62,489	(360,071)	(440,561)	(45,965)	—	(19,593)	58,950	(447,169)
Non-controlling interests	(44,947)	10,047	—	(34,900)	—	—	—	(58,950)	(93,850)
	(187,926)	72,536	(360,071)	(475,461)	(45,965)	—	(19,593)	—	(541,019)
Total comprehensive expense attributable to:									
Owners of the Company	(109,872)	68,348	(356,647)	(398,171)	(45,965)	—	(19,593)	58,475	(405,254)
Non-controlling interests	(44,070)	10,989	—	(33,081)	—	—	—	(58,475)	(91,556)
	(153,942)	79,337	(356,647)	(431,252)	(45,965)	—	(19,593)	—	(496,810)

D. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2015

	The Group	Adjustments	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*	*RMB'000*
	Note 1	*Note 1*	*Note 2*		*Note 4*	*Note 5*	*Note 6*	*Note 7*	
Operating activities									
Loss for the year	(187,926)	72,536	(360,071)	(475,461)	(45,965)	—	(19,593)	—	(541,019)
Adjustments for:									
Taxation	100,675	(876)	24,591	124,390	(12,965)	—	—	—	111,425
Allowances on trade receivables	1,911	(734)	—	1,177	—	—	—	—	1,177
Reversal of impairment loss on trade receivables	—	—	(2,804)	(2,804)	—	—	—	—	(2,804)
Amounts written off as uncollectable	4	—	—	4	—	—	—	—	4
Amortisation of intangible assets	35,437	(13,371)	38,752	60,818	58,930	—	—	—	119,748
Impairment losses on intangible assets	—	—	119,224	119,224	—	—	—	—	119,224
Depreciation of property, plant and equipment	113,678	(5,208)	27,517	135,987	—	—	—	—	135,987
Finance costs	5,431	(2,282)	14,568	17,717	—	(589)	—	—	17,128
Loss on disposal of property, plant and equipment	667	19	29	715	—	—	—	—	715
Interest income	(70,017)	(558)	(48)	(70,623)	—	589	—	—	(70,034)
Net loss (gain) on derivative financial instruments	2,914	(391)	1,001	3,524	—	—	—	—	3,524
Net gain on disposal of held-for-trading investments	(876)	—	—	(876)	—	—	—	—	(876)
Net loss on held-for-trading investments	9,144	—	—	9,144	—	—	—	—	9,144
Release of prepaid lease payments	2,812	—	—	2,812	—	—	—	—	2,812
Share-based payments expense	11,337	(391)	14,431	25,377	—	—	—	—	25,377
Deemed disposal of associates	3,353	—	—	3,353	—	—	—	—	3,353
Share of losses of associates	9,912	—	—	9,912	—	—	—	—	9,912
Transaction cost in relation to acquisition of subsidiaries	—	—	—	—	—	—	19,593	—	19,593
Operating cash flows before movements in working capital	38,456	48,744	(122,810)	(35,610)	—	—	—	—	(35,610)
(Increase) decrease in inventories	(6,255)	(1,305)	8,298	738	—	—	—	—	738
(Increase) decrease in trade receivables	(18,925)	(39,320)	33,211	(25,034)	—	—	—	—	(25,034)
Decrease in amounts due from customers for contract work	2,913	—	—	2,913	—	—	—	—	2,913
Decrease in other receivables, prepayments and deposits	17,784	2,553	21,260	41,597	—	—	—	—	41,597
Increase in amounts due from associates	(10,837)	—	—	(10,837)	—	—	—	—	(10,837)
Increase in trade and other payables	2,884	42,266	41,862	87,012	—	—	—	—	87,012

	The Group	Adjustments	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*	*RMB'000*
	Note 1	*Note 1*	*Note 2*		*Note 4*	*Note 5*	*Note 6*	*Note 7*	
Increase in amounts due to customers for contract work	569	—	—	569	—	—	—	—	569
Decrease in deferred income	(2,291)	1,970	—	(321)	—	—	—	—	(321)
Increase in amount due to a related company	363	—	—	363	—	—	—	—	363
Increase in amount due to an associate	9,624	—	—	9,624	—	—	—	—	9,624
Decrease in provisions	(5,304)	5,795	(696)	(205)	—	—	—	—	(205)
Cash generated from (used in) operations	28,981	60,703	(18,875)	70,809	—	—	—	—	70,809
Interest paid	(2,734)	2,282	(23,206)	(23,658)	—	589	—	—	(23,069)
Income tax paid	(154,563)	—	(401)	(154,964)	—	—	—	—	(154,964)
Cash inflow from settlement of derivatives	—	—	2,508	2,508	—	—	—	—	2,508
Net cash used in operating activities	(128,316)	62,985	(39,974)	(105,305)	—	589	—	—	(104,716)
Investing activities									
Interest received	95,255	558	48	95,861	—	(589)	—	—	95,272
Acquisitions of subsidiaries	(880,985)	809,579	—	(71,406)	—	—	(19,593)	(775,329)	(866,328)
Acquisition of non-controlling interest of a subsidiary	(228)	—	—	(228)	—	—	—	—	(228)
Advance to the Promethean Group	—	(97,993)	—	(97,993)	—	97,993	—	—	—
Proceeds from disposal of held-for-trading investments	32,676	—	—	32,676	—	—	—	—	32,676
Proceeds from disposal of property, plant and equipment	2,029	(210)	229	2,048	—	—	—	—	2,048
Proceeds from disposal of subsidiaries	65,396	—	—	65,396	—	—	—	—	65,396
Deposits paid for acquisition of property, plant and equipment	(17,464)	—	—	(17,464)	—	—	—	—	(17,464)
Placement of bank deposits	(1,400,760)	—	—	(1,400,760)	—	—	—	—	(1,400,760)
Withdrawal of bank deposits	2,838,633	—	—	2,838,633	—	—	—	—	2,838,633
Withdrawal of pledged bank deposit	247,622	—	—	247,622	—	—	—	—	247,622
Advance of loan receivables	(9,684)	—	—	(9,684)	—	—	—	—	(9,684)
Repayment of loan receivables	3,452	—	—	3,452	—	—	—	—	3,452
Purchase of prepaid lease payments	(38,202)	—	—	(38,202)	—	—	—	—	(38,202)
Purchase of property, plant and equipment	(507,379)	1,698	(7,087)	(512,768)	—	—	—	—	(512,768)
Purchase of intangible assets	(22,804)	—	(99,960)	(122,764)	—	—	—	—	(122,764)
Net cash from (used in) investing activities	407,557	713,632	(106,770)	1,014,419	—	97,404	(19,593)	(775,329)	316,901

	The Group	Adjustments	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*	*RMB'000*
	Note 1	*Note 1*	*Note 2*		*Note 4*	*Note 5*	*Note 6*	*Note 7*	
Financing activities									
Advance from the Group	—	—	97,993	97,993	—	(97,993)	—	—	—
Return of contribution to an associate and non-controlling shareholder from a subsidiary of the Group	(26)	—	—	(26)	—	—	—	—	(26)
Proceeds from shares issued upon exercise of share options	19,150	—	—	19,150	—	—	—	—	19,150
Dividends paid	(117,631)	—	—	(117,631)	—	—	—	—	(117,631)
Dividend paid to non-controlling interest of a subsidiary	(239)	—	—	(239)	—	—	—	—	(239)
Proceeds from issue of redeemable convertible preferred shares	260,359	—	—	260,359	—	—	—	—	260,359
New secured loans raised	—	—	28,623	28,623	—	—	—	—	28,623
Repayment of bank borrowings	(285,838)	38,216	—	(247,622)	—	—	—	—	(247,622)
Payment for repurchase of shares	(70,581)	—	—	(70,581)	—	—	—	—	(70,581)
Net cash (used in) from financing activities	(194,806)	38,216	126,616	(29,974)	—	(97,993)	—	—	(127,967)
Net increase (decrease) in cash and cash equivalents	84,435	814,833	(20,128)	879,140	—	—	(19,593)	(775,329)	84,218
Cash and cash equivalents at the beginning of the year	1,036,788	—	44,913	1,081,701	—	—	—	(44,913)	1,036,788
Effect of foreign exchange rate changes	5,734	(121)	338	5,951	—	—	—	—	5,951
Cash and cash equivalents at the end of the year, represented by bank balances and cash	1,126,957	814,712	25,123	1,966,792	—	—	(19,593)	(820,242)	1,126,957

Notes to the unaudited pro forma financial information of the Enlarged Group

1. The audited consolidated statement of financial position, the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group are extracted without any adjustments from the audited consolidated financial statements of the Group for the year ended 31 December 2015.

   The Acquisition was already completed on 2 November 2015 and its impact has already been included in the Group's consolidated financial statements for the year ended 31 December 2015. Accordingly, adjustments have been made to exclude the assets, liabilities and equity items, as well as the results and cash flows of the Promethean Group as at 31 December 2015 and for the period from Acquisition date to 31 December 2015 respectively from the consolidated financial statements of the Group, as well as to reverse the cash consideration paid upon Acquisition, assuming the Acquisition which took place on 2 November 2015, had instead taken place on 31 December 2015 and 1 January 2015, respectively.

2. The amounts are extracted from the audited consolidated financial statements of the Promethean Group as set out in Appendix I to the Supplemental Circular (translated to RMB at an average and closing exchange rates of £1=RMB9.538 and £1=RMB9.616 respectively), and represent the Promethean Group's consolidated assets and liabilities, consolidated results and consolidated cash flows as at 31 December 2015 and for the year ended 31 December 2015, respectively. Certain reclassifications have been made to conform with the Group's presentation.

3. For the purpose of preparing the unaudited pro forma consolidated statement of financial position of the Group, the pro forma fair value of identifiable assets and liabilities of the Promethean Group has been determined on the same bases as those used for the actual Acquisition on 2 November 2015, as included in the Group's audited consolidated financial statements for the year ended 31 December 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 31 December 2015 and the calculation of pro forma goodwill is as follows:

	At 31 December 2015 *RMB'000*
Consideration	820,242
Carrying amount of identifiable net assets acquired	(6,466)
Pro forma fair value adjustment to intangible assets	(648,421)
Deferred tax liability arising from pro forma fair value adjustment to intangible assets	142,653
Pro forma goodwill	308,008

The adjustments represent the cash consideration of £84.1 million (approximately RMB820.2 million) paid by Digital Train to Promethean Shareholders for 100% of the issued share capital of Promethean 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 RMB648.4 million, RMB142.7 million and RMB308.0 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 patent and technology and trademark. The pro forma fair values of these intangible assets are based on Directors' estimation with reference to a valuation carried out on the date of Acquisition, i.e. 2 November 2015, 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. For pro forma purposes, the fair values of these intangible assets as on the date of Acquisition, i.e. 2 November 2015, are assumed to approximate the pro forma fair values of these intangible assets as at 31 December 2015.

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 £28.7 million (approximately RMB276.2 million), using income approach based on the expected economic life of the relevant technological know-how. Promethean owns several trademarks for its major products, i.e. Classflow, Activboard, Activpanel, with an aggregate pro forma fair value of £28.5 million (approximately RMB273.8 million), which was estimated based on the royalty savings, i.e. cost of licensing the intangible assets from an independent third party, to be realised in the future by owning the intangible assets. The remaining intangible assets are customers relationship and backlog.

The deferred tax liability relating to the pro forma fair value adjustment of intangible assets amounted to approximately RMB142.7 million, which is calculated at the average income tax rate of the Promethean Group of 22%.

The Directors have assessed whether there is any impairment on the intangible assets and goodwill arising from the Acquisition on 2 November 2015 as at 31 December 2015 in accordance with HKAS 36 "Impairment of Assets" and concluded that there is no impairment in respect of the goodwill and intangible asset with indefinite useful life (i.e. trademarks) of the Group as at 31 December 2015 on the bases set out in the Group's audited consolidated financial statements for the year ended 31 December 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 of the value in use calculations relate to the estimation of cash inflows or 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 adjustments relate to additional amortisation of the intangible assets of RMB58,930,000, calculated with respect to the respective pro forma fair values and useful lives, which are assumed to be provided for the year as if the Acquisition had been completed on 1 January 2015. The amount of RMB12,965,000 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 Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows.

5. The adjustments represent the elimination of a loan of RMB97,993,000 advanced to the Promethean Group by the Group subsequent to the completion of the Acquisition in November 2015 and the accrued interests of RMB589,000 for the year ended 31 December 2015, as if the loan had not been granted as it is not directly attributable to completion of the Acquisition. These adjustments are expected to have continuing effect on the Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows.

6. The adjustments in the unaudited pro forma consolidated statement of financial position as at 31 December 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 2015 represent acquisition-related costs, including legal and professional fees and transaction costs of approximately RMB19,593,000 paid by the Group. These adjustments are not expected to have continuing effect on the Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows.

7. The pro forma net cash outflow of Acquisition is RMB775,329,000 which represents the consideration of RMB820,242,000 less cash and cash equivalents of the Promethean Group acquired amounting to RMB44,913,000 as at 1 January 2015. These adjustments are not expected to have continuing effect on the Group's consolidated statement of cash flows.

8. During the year ended 31 December 2015, NetDragon (BVI) controlled approximately 86.15% shareholding of Best Assistant Education. The results of the Promethean Group for the year ended 31 December 2015 and the pro forma adjustments to the consolidated statements of profit or loss and other comprehensive income were shared by the non-controlling interests of the Group amounting to RMB58,950,000, and the other comprehensive expense of the Promethean Group for the year ended 31 December 2015 was also shared by the non-controlling interests of the Group amounting to RMB475,000, as if the Acquisition had been completed on 1 January 2015. The adjustments are expected to have continuing effect on the Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A CIRCULAR

The following is the text of a report, prepared for the purpose of incorporation in this Supplemental 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 31 December 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 2015 and related notes as set out on pages II-2 to II-11 of the supplemental circular issued by the Company dated 31 March 2016 (the "Supplemental Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page II-1 of the Supplemental Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the acquisition of Promethean World Plc on the Group's financial position as at 31 December 2015 and the Group's financial performance and cash flows for the year ended 31 December 2015 as if the transaction had taken place on 31 December 2015 and 1 January 2015 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows have been extracted by the Directors from the audited consolidated financial statements for the year ended 31 December 2015, on which an independent auditor's 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 (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' 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 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 accountants 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 2015 or 31 December 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 unaudited 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 accountants' judgment, having regard to the reporting accountants' 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 March 2016

INDEBTEDNESS STATEMENT

At the close of business on 29 February 2016, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Supplemental Circular, the Enlarged Group had outstanding loans of approximately RMB39.6 million which are guaranteed and secured by share pledges over the shares and fixed and floating charges over the assets of certain subsidiaries of the Enlarged Group, and convertible preferred shares of approximately RMB280.8 million.

Save as the aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged 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 29 February 2016.

STATEMENT OF SUFFICIENCY OF WORKING CAPITAL

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

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

During 2015, the Group has further consolidated its market position in the gaming business and also achieved a breakthrough in its education business through exerting efforts to develop its education ecosystem.

During 2015, the online game business maintained its strong growth momentum. Through launching new games and introducing new gameplay and new content at the beginning of 2015, the portfolio of the Group's flagship games was further enriched and its market share was consolidated. New games launched by the Group were well received by the players and recorded outstanding operating performance. The Group intends to launch two to three new mobile games to further enrich its product portfolio and expand its revenue streams in 2016.

During 2015, the Group achieved a breakthrough in online education business. The education ecosystem comprising "hardware + software + contents + cloud platform" was established and further improved. The education ecosystem of the Group focuses on the K-12 education and extends to pre-school, higher, vocational, non-academic and lifelong education as well as corporate training to meet a wider range of educational needs. In order to further enhance user experience and expand market coverage, the Group has also actively introduced international leading technologies, marketing channels, talents and teaching contents through overseas cooperation and merger and acquisition. In addition, the Group exerted efforts in research and developing Virtual Reality (VR) technology as it foresaw the development trend of VR. The Group launched VR solutions, which support educational products and are also applicable to gaming and other entertainment fields. It is expected that VR solutions will become a new opportunity for business growth.

Gaming Business

Calibur of Spirit (英魂之刃) ("**COS**"), the first MOBA micro-client game of the Group, officially launched for open-beta testing on Tencent's platform in January 2015. After a number of updates and online and offline promotional activities, the experience and participation of users were improved significantly. In 2015, the number of users increased significantly. COS recorded its highest number of daily users in December 2015, resulting in the increase in revenue. The game also recorded its peak of monthly gross revenue in February 2016. In 2016, e-sports will become the main theme of games of the Group. In order to drive the growth of revenue of games and number of online users, the Group will actively put efforts in promoting COS Pro League (CPL) as officially established by it, together with World Cyber Arena (WCA) high-end e-sport tournaments and high school leagues, and inviting top squads in China. Leveraging on the user base of COS, the Group has developed the mobile version of the game which will be released for open-beta testing in the first half of 2016. With the strong brand image of COS, the Group is confident about the earning potential of its mobile version. The Group plans to launch the game in various foreign languages in 2016 to promote the game in the international market.

The Group continued to update the contents of Eudemons Online (魔域) and enrich its product lines. In October 2015, the Group officially launched the new expansion pack. Supported by marketing activities, the game recorded the highest daily recharge amount in the fourth quarter in 2015. The Group plans to launch a new expansion pack in April 2016. In addition, leveraging on the brand image of its flagship games, the Group further optimized the user base and the method of monetization in Eudemons Online (魔域). At the beginning of 2015, Eudemons Online Pocket Version* (魔域口袋版) was launched. The game has been updated from time to time after its open-beta testing. Its first expansion pack was launched in August 2015 and another new expansion pack was launched in January 2016. As such, the overall revenue from mobile version recorded an increase. In 2016, in addition to providing continuous content updates to the game in existing PC terminals, the Group will further enhance the brand value of Eudemons Online (魔域) by continuously updating the contents of all versions of the game and launching diversified versions of the game. Furthermore, the Group is preparing for the IP conversion, in order to establish an ecosystem for the brand of Eudemons Online (魔域).

The Group also continued to develop the updates of its classic game, Conquer Online (征服). In 2015, new expansion pack and new class update version of the Chinese version of Conquer Online (征服) were launched successively. The updated overseas version of Conquer Online (征服) was also launched, resulting in a significant increase in revenue from its overseas version. The revenue from the overseas version reached its record high in July 2015. The new expansion pack of the Chinese version of the game is expected to be launched in 2016.

Tiger Knight (虎豹騎), a 3D action strategy game, commenced testing in August 2015. Its new gameplay of PVE was launched in the fourth quarter of 2015, which won praise from players and the media and won a major award in the industry, namely, the "Top 10 Most Anticipated Client Terminal Games" of the 2015 China Game List organized by Tencent Game. The Group expects to officially launch the Chinese version of Tiger Knight (虎豹騎) in 2016.

In addition, the Group will leverage on the success of its game brands to develop different types of games so as to enrich the product lines and broaden revenue sources.

Online and Mobile Education

(1) *Products*

In 2015, the Group made significant progress in the development of comprehensive solutions for the educational ecosystem. The structure of education business was further improved. Progress was made in the development and optimization of the first commercial version in China. Schools, teachers and students will be able to seamlessly switch between all software platforms in the ecosystem of the Group for the best class experience. In addition, the integration between the Group's software platforms and proprietary product, 101 student tablet, will continuously improve user experience.

On the hardware front, after several upgrades, the third generation of 101 student tablet, namely ND3, was launched. Its mass production commenced in October 2015 and its commercial promotion proceeded smoothly.

On the software front, the first commercialized platform in China of the Group's software platform will include pre-class preparation, classroom cooperation, homework and other systems, in addition to customized instant messaging platforms designed for the education community.

In respect of contents, licensed and self-developed contents covered the K-12 curriculum and all major subjects, in the forms of teaching modules, learning modules and question bank. Through the combination of academic knowledge, artistic presentation, internet creativity and other aspects, the content development team of the Group strives to develop the best online education content database in China in terms of quality, quantity and academic scope. In 2016, the Group intends to establish strong strategic cooperation with education publishers, in order to further diversify education resources through a cooperative win-win mode and to offer a wider range of content by using proprietary technologies relating to 3D and VR.

The instant messaging platform of the Group has gone through rigorous development process. Many products and businesses of the Group are based on the same technology platform, which is integrated with other software modules of the Group to ensure seamless user experience, in order to satisfy users' needs in different industries and create a community network. Global promotion of education community is an important strategy of the Group in 2016. The Group also plans to promote its products through the global channels of Promethean.

(2) *Financing*

In February 2015, the Group's online education subsidiary acquired Series A equity fundraising round of USD52.5 million led by IDG Capital Partners, Vertex Venture (a wholly-owned subsidiary of Temasek Group) and Alpha Animation at a fully-diluted post-money valuation of USD477.5 million.

(3) *Merger and acquisition and consolidation*

During 2015, the Group actively explored opportunities of merger and acquisition in the education sector, in order to establish technology rampart, expand channel resources, increase investment in talents and facilitate global business development.

In August 2015, the Group completed the acquisition of 100% equity in ChiVox Co., Ltd ("**ChiVox**"). After the acquisition, the Group will integrate ChiVox's world-class intelligent voice and speech technology into its education platform.

In November 2015, the Group completed its acquisition of 100% equity in Promethean, for a total cash consideration of GBP84.8 million. Promethean will provide the Group with a strong brand in education, global sales and marketing channels, creating technology synergies and market access opportunities which will further enhance the Group's competitiveness and accelerate the global rollout of the Group's products. In future, the Group will gradually integrate with Promethean in terms of hardware and software, and incorporate its software and system into the product system of Promethean in the next three to five years. The Group will also implement the cost optimization program for Promethean.

During 2015, Promethean continued to provide functional updates for its products. As at the end of 2015, the sales of Interactive Display Systems of Promethean was GBP107.1 million, representing a decrease of 9.4% as compared to the sales of GBP118.2 million in 2014. In particular, the sales of Interactive Display Systems in the North American market was GBP56.6 million, while the sales in other markets was GBP50.5 million. In January 2016, Promethean launched its "Modern Classroom" campaign and previewed its new ActivPanel, an interactive flat panel display.

(4) *Market coverage and entry*

In respect of the market in China, the Group formulated targeted marketing strategies based on the educational market opportunities, development level and competitive situation in different regions and actively secured school users through participation in the development of provincial and municipal information infrastructure. Since the third quarter of 2015, the Group started its marketing campaigns through pilot programmes and has won the bidding in various provinces. As at the end of 2015, the sales contracts of the Group have covered 5,000 classrooms of 400 schools in 14 provinces and municipalities in China. With massive business promotion in 2016, it is expected that the coverage from education business will increase significantly.

In respect of the international market, the Group's business has been expanded to cover 1.3 million classrooms in more than 100 countries worldwide, and 2 million teachers and 30 million student users after the acquisition of Promethean. The revenue of Promethean has been consolidated into the Group's financial statements during the fourth quarter of 2015. In 2016, the Group will strengthen its business presence in developing countries by promoting its advanced techniques and resources in such countries.

(5) *Research and Development*

During 2015, the Group had made remarkable progress in technology research and development. Taking advantage of the engine, resources and software in VR sector, the Group introduced its VR solution plan to provide effective solutions for products, including games, entertainment, simulated trainings and distance learning and employed 3D and VR technology to enhance user experience. In 2016, the Group will focus on the development of VR platform and contents. The Group's VR business will focus on education, and extend to the VR-related platforms, content and editors of other industries. The Group will leverage its advantage as a first-mover to secure resources from different parties and expand vertical cooperation to create new driving forces for business growth.

(6) *Pedagogy Integration*

During 2015, through the cooperation with various professional education institutions, the Group enhanced the integration of information technology and education and introduced outstanding academic and channel resources so as to strategically promote the education business of the Group. In March 2015, the education subsidiary of the Group and Beijing Normal University jointly established the Smart Learning Institute. Such institute focused on the research of learning pattern under information technology environment and established a smart learning environment and platform for life-long learning to fully support the diversified, personalized and differentiated learning of learners of the cyber generation.

MATERIAL ADVERSE CHANGE

The Directors confirm that there was no material adverse change in the financial or trading position of the Enlarged Group since 31 December 2015 (being the date to which the latest published audited accounts of the Company were made up).

1. RESPONSIBILITY STATEMENT

This Supplemental 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 Supplemental 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 Supplemental Circular misleading.

2. LITIGATION

Save as disclosed in the paragraph headed "Litigation" in appendix IV to the Circular, so far as the Directors are aware, there is no litigation or claims of material importance pending or threatened against any member of the Enlarged Group as at the Latest Practicable Date.

3. 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 have since 31 December 2015 (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.

4. 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 Supplemental Circular:

Name	**Qualifications**
KPMG LLP	Chartered Accountants, England and Wales
Deloitte Touche Tohmatsu	Certified Public Accountants

As at the Latest Practicable Date, each of the experts identified above has no shareholding in any member of the Enlarged 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 Enlarged Group.

As at the Latest Practicable Date, each of the experts identified above had no direct or indirect interest in any assets which had been, since 31 December 2015 (the date to which the latest published audited financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired, disposed of by, or leased to any member of the Enlarged Group.

Each of the experts identified above has given and has not withdrawn its written consent to the issue of this Supplemental Circular with the inclusion of its letter and references to its name in the form and context in which they are included.

5. 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 Units 2001-05 & 11, 20th Floor, Harbour Centre, 25 Harbour Road, Wan Chai, Hong Kong from the date of this Supplemental Circular up to and including 21 April 2016 (save for Saturday and public holidays):

(a) the memorandum and articles of association of the Company;

(b) the accountants' report on Promethean Group from KPMG LLP, the text of which is set out in Appendix I to this Supplemental Circular;

(c) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix II to this Supplemental Circular;

(d) the letters of consent from KPMG LLP and Deloitte Touche Tohmatsu referred to in the section headed "Qualification and Consent of Experts" above in this appendix;

(e) the annual reports of the Company for each of the years ended 31 December 2013, 2014 and 2015;

(f) the Circular; and

(g) this Supplemental Circular.

6. GENERAL

The English text of this Supplemental Circular shall prevail over the Chinese text in the case of inconsistency.