DDD GROUP PLC

2014 Annual Report

Contents

MISSION STATEMENT

**DDD delivers advanced visual solutions
that bring innovative entertainment
to people everywhere on every screen**

STRATEGIC REPORT

Chairman's Statement

Dear Shareholder,

2014 was a year for DDD Group plc that required patience both from shareholders and the executive management team.

We continued to receive revenues from license fees and royalties through license agreements for 3D TV products and our licensees have now shipped in excess of 50 million products with DDD's TriDef technology installed. Revenues for the year were $2.5m (2013 - $3.4m) with gross margins of almost 100%. Very tight control of operating costs was maintained throughout the period resulting in a 20% year on year reduction to $3.15m from $3.97m. We took the decision to close the Yabazam 3D movie streaming service which was loss-making. Cash and receivables at the end of the last financial year were $1.27m but additional funds of $1.1m were raised in the March 2015 financing.

The primary focus of our research team in Perth, Australia and the management team in Los Angeles has been upon the development of new 2D technologies and products, particularly in the areas of video conferencing, interactive digital photography and social media applications. There is a growing recognition of the potential value of these products from several leading companies that sell software products into large consumer markets. We are optimistic that we shall be able to announce our first commercial agreements for the 2D technologies during the first half of the current year.

DDD has continued to make progress through Dominion Harbor LLC in pursuing our patent licensing initiative. Whilst the outcome and timing of the program to secure either licenses or damages from various parties remains uncertain, we continue to actively pursue all opportunities.

The Board continues to be committed to the highest standards of corporate governance and recognises the need to strike a good balance between strategy and overseeing the Company's operations, as this is the responsibility given to them by the shareholders, but consideration should also be given to all stakeholders. I believe that this balance has been achieved at Board, divisional and business unit level.

It only remains for me to thank my fellow Board members, the management team and all those employed at DDD for their continued hard work and effort over the last year which has presented some challenges. However, I remain confident that the skills and dedication shown by all those working at DDD will soon see a return to profitability and the growth path that we have enjoyed in previous years.

Yours sincerely

Nicholas Brigstocke,
Chairman
DDD Group plc
7 May 2015

STRATEGIC REPORT continued

Company Overview

DDD Group is a leading developer and licensor of intellectual property in the advanced imaging market for consumer entertainment products. The Group initially focused on delivering patent-protected solutions for the 3D consumer market where its TriDef® 3D content technologies have been shipped in 51 million televisions, Blu-ray players, personal computers, smartphones and tablets. The Group's 3D solutions have been licensed by leading consumer electronic brands including Samsung Electronics, LG Electronics, Sony Corporation and Lenovo.

Following the emergence of the 3D consumer market in early 2010, the Group established a technology licensing business that yields strong gross profit margins. The majority of licensees ship the Group's automatic 2D to 3D conversion solutions with their 3D consumer products in order to enable a wide selection of games, video and photo content to be viewed in 3D, even though they were not specially made in 3D. The 2D to 3D conversion products are available in a range of implementations that suit the customer's specific requirements, ranging from firmware for manufacturers of special 2D to 3D conversion chips to Windows PC software and Android software for the latest glasses-free 3D smartphones and tablets.

Having established its TriDef brand and reputation in the niche 3D market, the Group has broadened its development and licensing activities to address larger non-niche opportunities, in particular 'intelligent video' solutions where the ability to understand the depth structure of an image can be used to enhance a number of popular consumer and professional applications, including video conferencing, presentations, interactive digital photography and social media applications. Benefits of the Group's intelligent video solutions include real time identification of the user from their webcam image that allows the user's immediate background to be removed and replaced with alternate images without the requirement for additional green screen systems or infra-red depth sensors. These solutions also enable bandwidth savings and improved picture quality for organisations that stream video content to or between consumers.

Value proposition

DDD's approach is to develop solutions that are primarily based on one or more patents developed by the Group and protected in key territories in North America, Asia and Europe. As a result of the early patents, the Group has world leading expertise in the techniques involved in understanding the dimensional depth structure of otherwise flat 2D images. This expertise has been packaged into solutions for two key markets: automatic 2D to 3D conversion for consumer 3D products and real time identification of an end user's image from their 2D webcam for video conferencing, digital photography and social media applications. Each of these markets, business models, risks and business updates are presented in the Business Review of Operations section of this Strategic Report.

Key Performance Indicators

The key performance indicators used in the business are summarised below. The performance of the business in the terms of these indicators is considered throughout this Strategic Report section of the Annual Report and Accounts.

	2014	2013
New/renewal 3D license agreements signed in the year	**2**	4
Active 3D licensees during the period	**9**	15
3D units shipped with technology	**13,097,309**	11,242,178
Gross margin on continuing operations	**99.8%**	99.1%
OEM royalty revenue ($'000's)	**2,367**	3,132
Adjusted EBITDA* - 2013 restated	**(285)**	(203)
Adjusted (Loss)/profit before taxation from continuing operations* ($'000's) – 2013 restated	**(1,672)**	(1,483)
Working capital balance ($'000's)	**351**	2,246
Average monthly operating expenditure rate ** - ($'000's)	**411**	496

* Adjusted before share based remuneration expenses of $148,000 (2013: $426,000).

** Operating expenses before capitalisation of development costs as an average over the financial year. Does not include realised foreign exchange (FX) gains/losses.

Financial Review

Revenues from continuing operations for the year ended 31 December 2014 were $2,533,000 (2013: $3,386,000), a decrease of 25%, which is directly attributable to the decline in licensing to the 3D PC market that has been occurring since late 2012. All of the revenues in both periods relate to the technology segment.

The total reported shipments of the Group's technologies in the 3D market increased from 11.2 million to 13.1 million units; however, the mix of unit shipments by volume was heavily weighted to the embedded chip market for 3D TVs with the lowest average royalty per unit (ARPU). The mix by volume was: 99.9% TV, 0.1% PC and negligible mobile devices (2013: 97.1% TV, 2.7% PC, 0.2% mobile) and resulted in a decline in royalties from OEM agreements to $2,367,000 (2013: $3,132,000). Direct to consumer software licensing sales were $117,000 (2013: $203,000) for the year also reflecting the decline in the availability of 3D PCs.

Other technology licensing royalty revenues were $29,000 (2013: $51,000). This includes royalties received from IP patent licensing as well as royalties from other license agreements which are non-unit royalty based. Finally, $20,000 (2013: nil) was recognised as a license fee following termination of a PC licensing agreement which had a non-refundable first year license fee.

Gross profit decreased by 25% to $2,528,000 (2013: $3,356,000) and gross margin increased to 99.98% (2013: 99.1%) as a result of the continued shift in revenue mix towards higher margin 3D TV royalties.

Administration expenses for continuing operations decreased by 20.7% to $3,153,000 (2013: $3,974,000) due to continued streamlining of operations, a response to the slowdown in 3D revenues while the Group shifts its focus to the new 2D technologies and products. Additional savings were achieved with the move to a lower cost office in Australia and on the parent company costs as the Group limited investor relations activities during the year. The cost savings were supplemented by the net foreign exchange impact of the US dollar against the Australian dollar and British pound during the period.

Other income decreased to $340,000 (2013: $415,000) with the majority being related to the Australian R&D incentive program.

The non-cash share-based incentive cost decreased to $148,000 (2013: $426,000).

Adjusted Group loss before tax and share-based incentive costs from continuing operations totalled $1,672,000 (2013: $1,483,000). The reported pre-tax loss from continuing operations was $1,820,000 (2013: $1,909,000).

The total taxation charge was $389,000 (2013: $581,000). Taxation includes foreign withholding taxes withheld at source as well as local sales taxes, adjusted by the movement in the Deferred Tax Asset and Liability accounts. Note 8 to the Consolidated Group Financials describes this in more detail.

In December 2014, the Group closed down the Yabazam 3D movie streaming service and accounted for the transaction as a discontinued operation. The loss for the service for 2014 was $700,000 (2013: $416,000) and included loss on intangible asset disposals of $395,000 and $6,000 for inventory disposal at the time of the closure.

The Group recorded a loss per share from continuing operations of 1.5 cents per share (2013: 1.8 cents per share) and a total loss per share during the year of 2.0 cents per share (2013: loss 2.1 cents per share).

Net cash used in operating activities was $918,000 (2013: $179,000). Capitalised expenditure was $1,822,000 (2013: $1,897,000) of this, $72,000 (2013: nil) was a restricted cash deposit as required by the new Australian office lease agreement. This cash flow was supplemented by $836,000 of net proceeds raised from the issue of new unsecured convertible loan notes (2013: $1,281,000 from net equity issuance), resulting in cash of $697,000 at the end of 2014 (2013: $2,661,000).

Key risk analysis:

The Directors' financial risk management objective is to maximise financial assets and minimise financial liabilities whilst not engaging in speculation. The Directors have ensured that the Group has effective systems in place for managing and mitigating significant risks, which incorporate performance management systems and appropriate remuneration incentives where relevant. In identifying and assessing these risks, the Directors consider the Group's short and long-term value, as well as the opportunities to enhance value that may arise from an appropriate response to such a risk.

The Group conducts banking activities in multiple jurisdictions, including Australia, the US and the UK, relevant to the business requirements. Risks surrounding banking include bank solvency, liquidity of investments, interest rates earned and currency fluctuation risk. To mitigate these risks, the Group routinely reviews the banking relationships to ensure that all deposits are held with AA+ rated banking institutions and are insured where available. Cash balances are held in the currency of anticipated expenditure wherever possible to reduce the foreign exchange risk. Finally, interest rates and withdrawal limits are reviewed regularly to protect the Group and secure the best returns and availability of cash deposits. The current debt of the Group is held

STRATEGIC REPORT continued

in the form of Convertible Unsecured Loan Notes (see Note 17) with the largest shareholder and members of the Board. The interest rate on this debt is fixed at 7% and the Notes do not include any restrictive financial covenants.

Additionally, the financial reporting currency for presentational purposes is the US dollar. In 2011 the Group changed to the US dollar from the Pound Sterling due to the fact the majority of customer agreements are negotiated in US dollars. This mitigates the foreign exchange risk on revenue for the Group. Another main financial risk in this area is related to the extension of credit to customers. The Group actively reviews and approves the terms of, and parties to, significant commercial contracts where payment is not anticipated in advance.

Access to sufficient capital is a risk for the Group. The Group continues to make losses in various entities which could require it to secure further funding for its operations through loans or equity-based instruments, should commercial agreements not provide sufficient cash flow. The Directors periodically review business and cash flow models as well as the most suitable instruments for funding, to ensure that the Group is prepared should the need arise. The auditors have included an emphasis of matter regarding going concern for the Group and the parent Company accounts (page 26 and 57).

The majority of the Group's revenues are generated from license agreement royalties which are self-reported by the licensee. There is a risk that the licensee may under report shipments of the technology. The Group takes several steps to mitigate this risk by comparing reported shipments to third party market research and related industry press coverage applicable to the licensee. The Group also incorporates audit rights into license agreements so that reporting can be validated through the use of third party auditors when significant discrepancies arise. Finally, the business development team maintain regular contact with the product teams of each licensee to discuss market or technological trends and their potential impact on royalty reports. Specific discussions with licensees regarding royalty reports are held quarterly to clarify any material differences between quarterly royalty reports and the Group's expectation.

Remaining financial risk areas and a sensitivity analysis are discussed more fully in Note 16 of the Consolidated Group Financials.

Operationally, the key risks for the Group lie in the timing of new license agreements, non-renewal of license agreements, timing and the volume of licensee product shipments incorporating the Group's technology, performance of the markets in which the Group's licensees operate and potential changes in customer relationships that could adversely impact the operating revenue. The Group seeks to reduce this risk by increasing the number of licensees who utilise the Group's technology, developing new technologies that can be licensed to different groups of licensees operating in diverse markets as well as widening the number of discrete market segments where potential licensees do business.

Another key operational risk is the possibility that the proprietary rights underlying the Group's technologies will be challenged, invalidated, circumvented or used without the Group's authorisation. The Group files patents and trademarks as appropriate to protect its intellectual property. The Group also monitors competitive technologies promoted by third parties and develops strategies for potential enforcement actions. As discussed in this report, the Group utilises a third party to assist in negotiations to resolve unlicensed patent use however risk remains that the Group may need to litigate to successfully resolve the situation which introduces additional risk and uncertainty.

As new technologies are developed that allow the Group to widen the licensee base into new or emerging markets, another operational risk is that the Group will not be successful in securing licensees for these new technologies. The Group conducts regular forward planning meetings to ensure that, where possible, these new technologies are developed to meet requirements that are present in the target markets.

Various risks specifically related to the business areas, including competitive risks, are further detailed in the following section.

Business Review of Operations

3D TECHNOLOGY LICENSING BUSINESS

AUTOMATIC 2D TO 3D CONVERSION

The ability to create depth information from a 2D image was initially packaged as technology solutions that are licensed into the market for consumer 3D displays, including televisions, personal computers, smartphones and tablets. The value proposition is simple as there is insufficient 3D content from film studios and from television production companies to support a 24 hour/day, seven day/week 3D TV channel; therefore having the capability to automatically convert existing 2D TV shows, movies and games in the home is an important feature for consumer electronics manufacturers and consumers alike. For the consumer, it ensures that a diverse range of 3D content is instantly accessible upon purchase of the 3D product. For the consumer electronics manufacturer, the inclusion of this capability overcomes the consumers' concern over lack of available 3D content when purchasing their 3D product.

Addressable market:

Of the markets in which the Group is currently active, the market for 3D consumer devices is the most mature with the 3D Television market representing the strongest opportunity. The Group saw shipments of licenses for 3D TV chips increase by 20% year over year as the global TV market shipments continued to recover.

As noted in the Annual Report and Accounts for 2013, licensing and royalty revenue from the PC market continued to decline to minimal levels in 2014, and the Group does not expect that the 3D PC market will contribute materially to future 3D technology licensing revenues. This has been the reason behind the declining revenue base and the decrease in active licensees reported in the KPIs.

Given the emphasis placed by display manufacturers on the development of non-3D features, including increasing the resolution of 2D displays, the availability of cost-effective 'glasses-free' 3D display technologies remains a constraining factor on the delivery of mass-market 3D smartphone and tablet products. Consequently license and royalty revenues from the Company's Android 3D apps were low. The Group does not expect that the 3D smartphone and tablet market will contribute materially to future 3D technology licensing revenues until the next generation glasses-free 3D mobile displays become widely available.

Business Model

DDD's TriDef 2D to 3D conversion software business model currently includes:

- the licensing of the TriDef 3D software to Original Equipment Manufacturers (OEMs) for TV, PC, monitor, mobile and tablet markets yielding **license fees (licensing revenue)** and **per unit royalties (royalty revenue)**;
- the sale of TriDef 3D software directly to end users from the Group's website and the Google Play store yielding **per unit license fees (software sales revenue)**; and
- **one time development fees (consulting revenue)** based on DDD's assistance in integrating the TriDef 3D firmware or software with the licensee's new 3D products.

Specific Risks

Competitive risk exists in the market as follows:

- unlicensed use of the Group's intellectual property;
- alternative 2D to 3D conversion methods which have been used by some manufacturers that yield lower quality visual results;
- license agreement renewal terms and non-renewals; and
- changes in licensee production due to economic conditions or market demand for 3D products

The Group has partnered with a suitable intellectual property licensing specialist, Dominion Harbor LLC, in order to address unlicensed use of the Company's patent claims. Where possible the Group seeks to renew license agreements on terms that are as close to the original license agreement terms as is possible. In certain cases, since the royalties adjust based on cumulative shipment of the Group's technologies by the licensee, the per-unit royalties reduce as production increases. The Group monitors feedback from its licensees as well as from independent market research firms and adjusts its product development strategies and support resources in line with developing market trends.

STRATEGIC REPORT continued

PATENT LICENSING

To date, the majority of the Group's licensing revenue has been derived from the 2D to 3D conversion technology licensing program, whereby the Group provides a software application or reference design to the licensee for inclusion with the licensee's 3D products.

With over 51 million 3D consumer products that include the Group's TriDef 3D technologies shipped by leading manufacturers since early 2010, there is now an established value for the internationally registered patent claims on which DDD's solutions have been built. As new revenue streams continue to be developed, the Group expects that patent licensing revenue will grow as the Group establishes its patent rights with prospective licensees. The patent licensing program also has the potential to create license and royalty revenue from applications in 3D markets that are outside the scope of the current technology licensing program. The Group appointed Dominion Harbor LLC as its exclusive patent licensing advisor in August 2014. Dominion Harbor is working closely with the Group to secure patent licensees in the consumer and professional 3D markets.

Business Model

DDD's patent licensing business model currently includes:

- the licensing of the patent rights to appropriate vendors to utilise the claims of the patents in various business processes, yielding **license fees (licensing revenue)** or **per unit/per minute royalties (other licensing royalty revenue)**.

Specific Risks

Competitive risk exists in the market as follows:

- the Group's intellectual property advisory partner may be unsuccessful in assisting in the expansion of the licensing program; and
- the financial cost of asserting the patent rights by litigation may be too significant for the Group to bear when compared to the value of the resulting license fee.

The Group has thoroughly investigated the available options for licensing its patent rights and plans to implement an approach that maximises the success of the program whilst minimising the financial risks to the Group. Through partnering with an established intellectual property licensing specialist, the Group is able to take advantage of industry best practices when seeking licenses. The pre-existing technology licensing royalties provide an established value by which license fees can be calculated, mitigating the risk that prospective licensees will propose unrealistically low licensing terms.

Looking forward – 3D Technology market direction

During 2014, the Group continued to realise the majority of its revenues from technology licenses in the 3D television market. Given the continued decline in 3D PC shipments and the continued lack of available mass market glasses-free displays for the smartphone and tablet manufacturers, the Group restructured its development resources to place more emphasis on the delivery of new technologies and products intended for use in the larger 2D market opportunities.

As part of this review, the Group also closed its Yabazam 3D movie streaming service in late 2014 which was available to users of 3D Smart TVs from Samsung, LG Electronics and Panasonic. Downloads of the Yabazam 3D app to Smart TVs began to decline in the second quarter of 2014, consistent with a restructuring of the Smart TV stores and support infrastructure by leading manufacturers including Samsung. This restructuring reflected the modest adoption of Smart TV apps beyond the more popular streaming services including Netflix and Amazon Prime.

With the marketing emphasis in the consumer television market now being placed on features including ultra high definition (UHD) televisions, and 3D having become an expected feature on many larger TVs, the Group has shifted emphasis from developing and licensing solutions exclusively into the 3D market in order to address other markets with stronger growth potential.

In the PC market, the Group will continue to maintain software and game support for the OEM and consumer market for as long as continuing in the 3D PC market remains sustainable.

In the mobile device and tablet market, the Group completed development of the TriDef 3D Games and TriDef 3D Gallery applications for Android devices in 2013. The new applications were made available in the Google Play app store in 2014 to introduce the software at no risk for new users. A paid upgrade option is available that enables a fully featured upgrade version of the software for users who wish to upgrade for unlimited, full use of the software.

The Group continues to monitor developments in the 3D market and remains well positioned to take advantage of any emerging opportunities for new 3D devices through its existing products and solutions.

2D TECHNOLOGY LICENSING BUSINESS

Since inception, the Group's technical team has developed world-class expertise in the efficient extraction and processing of depth from a two dimensional image. The primary focus of the Group has been to develop a series of patents and technologies based on this expertise that delivered practical solutions for the stereoscopic 3D industry as this has been the first mass-market where the Group's technologies and products could be licensed in volume. Recognising that the market for 3D products was not growing as quickly as had originally been forecast, the Group developed a turnaround plan with the goal of delivering a new range of technologies that can return the Group to profitability.

The turnaround plan was shaped around a series of criteria:

- The new markets should leverage the Group's existing technical expertise, products and patents
- The new solutions should address existing and future requirements for the Group's OEM customers
- The new markets should be significant in size, non-niche and show strong near term growth potential
- The new solutions should not be constrained by the need to add special hardware to the target devices
- The route to market should include direct to consumer app licensing in addition to OEM licensing

Throughout 2013 and 2014 the Company researched a number of market opportunities and focused on the development of innovative new solutions that have resulted in a number of recent patent applications being filed. At the core of these new solutions lies the Group's leading expertise in automatically analyzing and deriving the depth in a 2D image.

EFFICIENT ENCODING OF 2D STREAMING VIDEO

The first of these developments yielded the patents and technologies that facilitate more efficient encoding of 2D video that was announced in 2013. The value proposition is simple. Since the viewer is often focused on actors and objects towards the front of the scene, the depth information can be used to guide the movie encoding process to direct more of the available picture quality to areas of interest to the viewer. The result of this approach is that the same quality picture can be delivered for approximately 20% less bandwidth. This technology underpinned the late 2013 investment in the Company by US-based mobile licensing specialist, InterDigital Communications Corporation (Nasdaq: IDCC).

EFFICIENT ENCODING OF 2D VIDEO CONFERENCES

During 2014, the Group began to develop the depth-based video encoding solution for use in video conferencing. This necessitated the development of TriDef SmartCam, a solution that is able to automatically identify and track the video conference participant from the image being captured by their 2D webcam so that the video encoding process can be directed at the regions of the video conference that contain the viewer's face, head and torso where more encoding detail can be applied. Again, the value proposition is simple in that video conference participants are typically looking at the other participant's face; therefore having the ability to dedicate more of the available bandwidth to areas of visual interest to the participant will increase the perceived quality of the video conference experience. Similarly the option also exists to use this approach to deliver the same quality picture for approximately 20% less bandwidth in instances where bandwidth is at a premium, as is the case when video conferences are conducted using smartphones and tablets with mobile data plans.

STRATEGIC REPORT continued

REAL TIME BACKGROUND SUBSTITUTION

Due to the accuracy with which the TriDef SmartCam software can identify and track the end user, the Group also identified that the solution can be used to remove the user's background during a video conference and replace it with an alternative image. This is a valuable feature for both business and consumer users alike who may wish to obscure the environment that they are conducting the video conference from, such as an office cubicle, airport lounge or home study. Prior to TriDef SmartCam, background substitution has either required the end user to have a 'green screen' located behind them or requires the use of a special hardware sensor such as Intel's RealSense. The value proposition for TriDef SmartCam in background substitution is that no special coloured background screen is required and that the TriDef SmartCam software makes use of the existing 2D webcam in the user's PC, smartphone or tablet, making it compatible with pre-existing devices already available to consumers and eliminating incremental hardware cost for the PC, smartphone or tablet manufacturers.

The Group has chosen to follow the successful format of its TriDef 3D Game software which enabled hundreds of the most popular PC and mobile games to be played in 3D without needing to change the game software. As a 'middleware' application, TriDef SmartCam is instantly compatible with popular video conferencing applications including Skype, QQ from Tencent Holdings, ooVoo and Lenovo's Youyue.

Easy background removal for video conferencing

ENHANCED SOCIAL PHOTOGRAPHY

With the widespread availability of high quality digital cameras in smartphones and tablets, the sharing of personal photographs through social media and other online forums has grown significantly in recent years. Using the TriDef SmartCam's ability to isolate the person from their background in a digital photograph taken with a smartphone or tablet enables some significant improvements to the way in which 'selfie' photographs can be created. By allowing the user to take their preferred picture of the background with the scene facing camera and then taking the user's picture with the user facing camera, the two can be interactively combined with an intuitive touch interface that enables the user to position and re-size their image in front of the background to create the perfect 'selfie'. The value proposition for the end user is simple in as much as this approach enables them to create improved photographs where the user and background are properly illuminated and framed and no part of the user is otherwise obscuring important aspects of the background scene.

ENHANCED SOCIAL MEDIA ENGAGEMENT

By combining the user/background removal capabilities of the TriDef SmartCam with the Group's well established technologies for analyzing the depth structure of a photo, video or game, it becomes possible to deliver a highly innovative means of engaging users at a deeper level with their favourite content. With the user's background removed, the 'selfie shot' can be positioned within a scene from a photo, game or video. Additionally, the user can choose which parts of the scene are in front of their selfie image and which remain behind. The same intuitive, simple touch screen compatible interface allows the user's image to be repositioned, resized and set at any one of a range of different layers within the image.

In the social photography market, photographs can be shared where the recipient is able to include his or her own selfie image within the photo they receive before re-sharing it with the sender or distributing it via social media. The value proposition for the end user is simple in as much as this approach enables them to simply create highly engaging photographs for sharing on social media without the need to use complex, time consuming photo editing techniques. As social media networks seek innovative methods to create better engagement with their members, the Group believes that these new solutions will be well received by end users.

Create a Perfect Selfie in 2 steps

Choreograph yourself into a video or game sequence

STRATEGIC REPORT continued

Addressable Market
In research that was published in January 2014, DisplaySearch has forecast that the market for new consumer devices that are equipped with such a depth sensing capability will grow from approximately 273 million units in 2015 to over 1.2 billion units annually by 2017.

Importantly, as outlined in the Group's growth strategy, the Group's new solutions are not dependent on the inclusion of any new hardware (as was the case in 3D with the need for a special 3D display) in the user's device and are targeted at existing and new PC, smartphone and tablet devices that are already available.

Business Model
DDD's 2D software business model currently includes:

- the licensing of the TriDef 2D software to Original Equipment Manufacturers (OEMs) for PC, smartphone and tablet markets, yielding **license fees (licensing revenue)** and **per unit royalties (royalty revenue)**;
- the sale of TriDef 2D software directly to end users from the Group's website and app stores such as the Google Play store, yielding **per unit license fees (software sales revenue)**; and
- the inclusion of TriDef 2D software with third party video conferencing products where the end user purchases the feature using an e-commerce transaction, yielding **per unit license fees (software sales revenue)**; and
- the promotion of the TriDef 2D software by affiliates with large installed user bases of related products yielding **per unit license fees (software sales revenue)**; and
- **one time development fees (consulting revenue),** based on DDD's assistance in integrating the software with the licensee's new products.

Specific Risks
Competitive risk exists in the market as follows:

- streaming video and video conferencing software providers may determine that the pre-processing approach is not suited to their business needs, resulting in low uptake of the solution by prospective licensees;
- video conferencing users may determine that the pre-processing approach and background substitution is not beneficial resulting in low uptake of the solution by prospective licensees;
- competitive streaming bandwidth or picture quality improvement solutions may offer a better result and/or more favorable terms, reducing the attractiveness of the proposition to prospective licensees; and
- consumers may not adopt the interactive digital photography capabilities to improve their selfie photographs resulting in lower uptake of the app by consumers;

Following the delivery of the Windows and Android prototypes of the TriDef SmartCam solution, the Group has seen a positive response from mobile device manufacturers who are looking for solutions that improve the picture quality for their video conferencing apps. Where possible, the Group undertakes early stage solution development in close collaboration with key partners in different markets with the goal of ensuring that the solution has the required features and bandwidth performance when it is formally released. Discussions with consumer video conferencing providers have identified that background substitution is a feature that they wish to deploy to their users and the Group's ability to enable this feature using hardware that the user already owns is seen as a critical advantage over the alternatives such as physical 3D hardware sensors which are not widely available and require the end user to purchase a new product or device. While the new social photography features are something that users are not currently familiar with, success through a simple, intuitive touch screen interface which many users are already familiar with, is expected to improve the chances of successful adoption.

Current Trading and Outlook

During 2015, the Group expects to complete the launch of PC and mobile versions of the new 2D products which will be made available to device manufacturers, software developers and directly to consumers using existing online distribution channels already used by the Group. Beta testing of these new products commenced in late 2014 with key prospective licensees and partners and successful conclusion of commercial agreements is expected to augment the current licensing revenue from 3D technologies while reducing the Group's reliance on the performance of the 3D market and creating diversified licensing income.

The Group will continue to work closely with Dominion Harbor to address the apparent unlicensed use of its patent claims with the objective of securing license fees for the use of the Group's international patent library claims in various 3D consumer products and professional services.

Where practical, the Group will continue to pursue new patent filings for the underlying concepts involved in these new solutions in order to continue to strengthen its international patent library.

Despite the challenges of 2014, the Board is confident that the Group can return to the growth performance that was demonstrated in recent years as the new technologies are delivered and the licensees are secured during 2015.

This Strategic Report, as set out on pages 1 through 11, was approved by the Board of Directors of DDD Group plc and signed on its behalf by:

N Brigstocke

Nicholas Brigstocke
Chairman

7 May 2015

C M Yewdall.

Christopher Yewdall
Chief Executive Officer

7 May 2015

DIRECTORS' REPORT

DDD GROUP PLC DIRECTORS

Nicholas Brigstocke (72), non-executive Chairman
(independent[1])
Nick was appointed a non-executive director of DDD in November 2001 and appointed Chairman in June 2013. In addition to the Company, he currently is a member of the board of directors of Interactive Investor PLC and Petromaroc Corporation PLC. In 2001, he retired as Chairman of UK Equity Capital Markets at Credit Suisse First Boston ("CSFB"). He joined CSFB when it purchased Barclays de Zoete Wedd in January 1998, at which time he was Chairman and Managing Director of BZW's UK corporate broking business. Prior to that, he was head of equity sales and a member of the equity management committee at BZW.

Christopher Yewdall (49), Chief Executive Officer
Chris was appointed Chief Executive Officer of DDD in November 2001. He joined DDD as Vice President of Sales and Marketing in September 1998, was appointed President of DDD USA in July 1999, became its Chief Executive Officer in July 2000 and was appointed to its Board of Directors of DDD Inc. in April 2001. Prior to joining DDD, Chris was Vice President, Business Development of C-Dilla Limited, an anti-piracy software provider servicing entertainment and business software developers. Between February 1991 and March 1997, he was General Manager and Vice President of Sales of Virtuality Inc., a virtual reality 3D technologies company with offices in Europe and North America.

Victoria Stull (44), Chief Financial Officer
Victoria was appointed to the Board of Directors of DDD on 18 July 2012. Victoria joined the Group's finance team in October 2009 and was appointed as Chief Financial Officer in June 2010. Prior to joining DDD, Victoria was a founding member and Vice President of Sales & Business Development of GOQO, an online entertainment portal available in over 20,000 internet cafes throughout China. Victoria has also held financial positions at Gemstar-TV Guide International, a leading provider of interactive programming technologies in the digital television market, and Sony Pictures International Television. She spent five years in various audit roles with Sony Corporation of America and Deloitte & Touche LLP.

Dr. Sanji Arisawa (72), non-executive director
(non-independent[2])
Sanji was appointed a non-executive director of DDD in March 2005. He has been the President & CEO of Tokyo Stock Exchange listed Arisawa Manufacturing Co., Ltd. since 1995. Dr. Arisawa obtained his Ph.D. in operations research from North Carolina State University in 1973.

Paul Kristensen (71), non-executive director
(independent[1])
Paul was appointed to the DDD Board in November 2001 and is the President of Capital Technologies Pty Ltd, a venture capital firm in Australia. He has been a founding director and shareholder of numerous technology companies originating in Western Australia, including ERG Limited, Arbortech Pty Ltd, Kinetic Limited, TrueVision 3D Pty Ltd (the precursor to DDD), and Structural Monitoring Systems Ltd. He is currently an associate of AADI Defence Pty Ltd and a non-executive director of Stochastic Simulation Ltd, Lumitex Ltd, Accumulus Pte Ltd (Singapore), HIVAP Global Cooling Pte Ltd (Singapore) and Asia Pacific Technology Ltd (Hong Kong). Paul is a co-founder of Western Australian Angel Investors, Inc, and was a member of the Australian IT Industry Innovation Council for its full term from 2009-13. He was appointed a non-executive director of DDD Inc. (the predecessor parent company) in May 1996 and served as Chairman of DDD Group plc from May 2002 to June 2013.

Hans Roger Snook (66), non-executive director
(independent[3])
Hans was appointed a non-executive director of DDD in January 2006. Hans is the Chairman of Truemove, a mobile telephone operator based in Thailand. Hans was the founder and Chief Executive of Orange and served on the board of the main holding company and two of its subsidiaries. He articulated the vision of a 'wire free future' which has driven the branding, strategy and operation of Orange. Under Hans' leadership, Orange launched on 28 April 1994 and had a profound impact on the mobile market in both the UK and globally. In March 1996, Orange listed on the London and NASDAQ exchanges and, in June of that year, became the youngest company to enter the FTSE 100. After a series of acquisitions, Hans continued as Chief Executive of the enlarged Orange group, leading it to a subsequent flotation in February 2001, at which point he became Special Adviser to the group, a role from which he stepped down at the end of 2001. From 2002 until July 2005, Hans was non-executive Chairman of Carphone Warehouse Group plc. From May 2005 to February 2007, Hans was non-executive Chairman of MonsterMob Group plc.

1 The Board is satisfied that this non-executive director remains independent in character and judgement despite serving as a director in excess of 9 years and that there are no relationships or circumstances which are likely to affect or could appear to affect, his judgement. Each director with this designation will stand for election annually to ensure shareholder approval.

2 The Board is satisfied that this non-executive director brings significant knowledge, experience and value to the Board despite being non-independent. When matters specific to the related party interests disclosed in Note 25 of the Group financial statements are before the Board, this director abstains from voting in accordance with the Board's rules regarding Conflicts of Interest (page 19).

3 As defined in The UK Corporate Governance Code.

DIRECTORS' REPORT

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2014.

CORPORATE GOVERNANCE

The Directors acknowledge that adhering to rules of good corporate governance is in the best interests of the Group and its shareholders for the long-term success of the organisation. As an AIM listed Company, the Group seeks to follow the principles of the Quoted Companies Alliance ("QCA") Corporate Governance Guidelines for Smaller Quoted Companies.

As the Company's shares are traded on AIM, the Company has not complied with the UK Corporate Governance Code ('the Code') nor is it required to. However, the Company is committed to high standards of corporate governance and draws upon best practice available, including those aspects of the Code considered appropriate.

ARTICLES

The Company's Articles of Association are available on the Company's website and may be amended by special resolution of shareholders.

BRANCH OFFICES

The Company has operating subsidiaries located in Los Angeles, California, USA and Perth, Western Australia as detailed on the back cover of this document. The Company also has a non-operating subsidiary in the British Virgin Islands.

DIRECTORS

The Company is led and controlled by the Board of Directors, chaired by Nicholas Brigstocke with three additional non-executive directors and two executive directors. The chairman is responsible for leadership of the board and ensuring its effectiveness in all aspects of its role. The non-executive directors constructively challenge and help develop proposals on strategy.

Subject to the Company's Articles of Association, the prevailing legislation and any directions given by special resolution, the business and affairs of the Company will be managed by the Directors who may exercise all such powers of the Company.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act 2006, and related legislation. Directors may be appointed by the Company by ordinary resolution or by the Board on recommendation of the Remuneration and Nomination Committee. A Director appointed by the Board holds office only until the following annual general meeting and is then eligible for election by the shareholders but is not taken into account in determining the Directors or the number of Directors who are to retire by rotation at that meeting. The Company may, by ordinary resolution of which special notice has been given, remove any Director before the expiration of his/her term of office.

Biographical details for each of the Directors are set out on pages 12-13 which forms part of this report. Details of the dates of appointment of Directors within the year are shown in the Directors' Report. All Directors are subject to re-election within a three-year period. Directors have a standard three month notice period in their service agreements specific to the director role. The roles of the Chairman and Chief Executive are separate and have been so throughout the year.

The non-executive directors meet, without the presence of the executive directors, whenever it is appropriate for them to do so. All the Directors have access to the advice of the Company Secretary and may, in furtherance of their duties, take independent legal and financial advice at the Company's expense. They also have access to the minutes of the Board, in which any views expressed by them regarding matters pertaining to the Group are recorded.

Documented succession planning and structured performance evaluations have been discussed by the Board but have not yet been fully implemented. Informal evaluations are conducted by the Chairman with non-executive and executive directors regularly to ensure commitment and identify any deficiencies in skills for further training.

DIRECTORS DURING THE FINANCIAL PERIOD

The names and biographical details of the current Board of Directors are shown on pages 12-13. The following Directors held office during the year ended 31 December 2014:

Director	Date of original appointment	Expiration of current term
Nicholas Brigstocke (Non-executive Chairman)	23 November 2001	June 2015
Christopher Yewdall (Chief Executive Officer)	5 September 2001	June 2015
Victoria Stull (Chief Financial Officer)	11 July 2012	June 2016
Dr. Sanji Arisawa (Non-executive director)	10 March 2005	June 2015
Paul Kristensen (Non-executive director)	23 November 2001	June 2015
Hans Roger Snook (Non-executive director)	12 January 2006	June 2015
Warren Littlefield (Non-executive director)[1]	23 November 2001	April 2014[1]

[1] Warren Littlefield resigned his seat on 15 April 2014.

In accordance with the Company's Articles of Association ("Articles"), Messrs. Brigstocke, Arisawa, Kristensen, Snook and Yewdall will retire by rotation at the Annual General Meeting (AGM) of the Company to be held on 9 June 2015 and will seek re-election at the meeting.

The remuneration and any disclosable interests of the directors at 31 December 2014 and at 5 May 2015 including holdings, if any, of spouses and children aged under 18 is presented in the Remuneration Report which forms part of this Directors' Report.

Related party transactions are included in Note 25 to the consolidated Group financial statements.

DIRECTORS' INDEMNITIES

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of each of the Directors in respect of liabilities incurred as a result of their office to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the financial year with a cover limit of £2,000,000.

BOARD MEETINGS

The Board generally meets quarterly and at such other times as required, and receives regular reports on a wide range of key issues including operational performance, risk management and corporate strategy.

The Board's accountability is demonstrated by the adoption of a formal schedule of matters specifically reserved to the Board for its decision concerning key areas across the Group's activities, thereby ensuring that all major decisions affecting the Group are taken at Board level. These matters are documented on the Company's website. All the Directors are free to bring any matter to the attention of the Board, at any time. Additionally, the Nominated Advisor is invited annually to provide a Director Obligations presentation to the Directors and the legal advisors provide written governance updates and guidance as needed.

The Board invites the other executive officers of the Group to attend and participate in meetings to remove any risk of over-reliance on the executive directors.

DIRECTORS' REPORT continued

COMMITTEES

The combined Audit and Corporate Governance Committee and the combined Remuneration and Nomination Committee meet at least twice a year and the membership is reviewed annually. In June 2014, membership and Chair positions of each committee were updated. There were no other changes to the functional operation of either committee.

Audit and Corporate Governance Committee

The Audit and Corporate Governance Committee is chaired by Paul Kristensen and comprises two other non-executive directors, Nicholas Brigstocke and Hans Snook. The external auditor, together with the Chief Executive Officer, Chief Financial Officer and other financial staff are invited to attend these meetings as and when required.

In accordance with its terms of reference, the principal function of this committee is to determine the appropriateness of accounting policies (see Note 2 to the Group financial statements) to be used in the Group's annual results. In addition the Committee is responsible for monitoring the independence of the Group's auditor, assessing the Group's audit arrangements and the Group's system of internal controls, regular review and confirmation of the business risks and mitigating controls, and reviewing the half-yearly and annual results before publication to ensure sufficient useful information is supplied in a useable format with no significant omissions. The committee also reviews anti-bribery policies and compliance with best practices for corporate governance and is the point of contact for monitoring of ethics and receipt of any whistleblowing assertions in accordance with the Group employee policies and procedures.

The Committee relies on routine financial and business updates from the management team as well as detailed memos in reference to going concern, risks and controls, and any other matters that are required in conjunction with the financial reporting. The Committee also receives an annual report from the Company's external auditor and meets with them without the presence of executive management to discuss the business directly and ensure no limitations were imposed by management.

A report of the Audit Committee is provided in a separate section below.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is chaired by Nicholas Brigstocke and includes two other non-executive directors, Paul Kristensen and Hans Snook. In accordance with its terms of reference the Committee determines the level and make-up of both fixed and variable remuneration (including bonuses and options) of the executive directors and certain senior management. This also includes formulation of remuneration policy throughout the Group, embracing both share options and bonuses.

The Committee also evaluates the balance of skills, knowledge and experience on the Board and considers all new Board appointments and re-appointments against this evaluation. The Committee sets the Company's Equal Opportunity for Employment policy and recognises the importance of diversity, including gender, at all levels within the organisation. Following the appointment of Miss Stull to the Board, female board members now represent approximately 17% of the Board's composition. The Committee also oversees the induction of new appointments and works with the executive team to coordinate introductions to strategic shareholders as deemed necessary.

The Report of the Board regarding Directors' Remuneration and the Group's remuneration policy giving details of Company policy and individual Directors' remuneration is set out on pages 23 to 25. The remuneration arrangements of the non-executive directors are recommended by the executive directors in consultation with the Company's Independent Advisors and then approved by the Board as a whole.

Executive Management Committee

The Executive Management Committee (the 'EMC'), under the chairmanship of the Chief Executive Officer, or in his absence the Chief Financial Officer, meets every two weeks and is responsible for the day-to-day running of the Group. The members of the EMC include the Chief Executive Officer of the Company (Director), together with the Chief Financial Officer (Director), Chief Technology Officer and four additional business heads who are not officers or Directors.

Attendance by the Directors at formal board and/or committee meetings in 2014 is summarised as follows:

Director	# of Board Meetings Attended	# of Audit and Corporate Governance Committee Meetings Attended	# of Remuneration and Nomination Committee Meetings Attended	Total # of board and committee Meetings Attended
Total Held	10	2	1	13
Nicholas Brigstocke	10	2	1	13
Christopher Yewdall	10	2*	1*	13
Victoria Stull	10	2*	1*	13
Dr. Sanji Arisawa	8	N/A	1*	9
Paul Kristensen	10	2	1	13
Hans Roger Snook	6	1	1	8
Warren Littlefield**	3	1	0	4

* Present as an invited guest.

** Mr. Littlefield retired from the Board of Directors effective 15 April 2014.

The Board has scheduled seven board meetings to be held during 2015.

GOING CONCERN BASIS

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 10.

The recently completed financing (announced 9 March 2015 and completed 1 April 2015) provides sufficient working capital through to the end of 2015 with modest revenue assumptions from the new products. The Directors have prepared cash flow forecasts up to 31 December 2018 under various scenarios based on performance assumptions for the 2D and 3D business units which indicate the Company will have access to sufficient cash. The revenue forecast includes assumptions regarding existing contracts and new revenue streams arising from contracts which are in the negotiation phase; however, there is no guarantee that contract negotiations will reach successful completion.

If there are material adverse variances against these forecasts, the Company is able to institute measures to take mitigating actions to manage cash resources and access additional funding from strategic sources if required.

The Directors have concluded that the combination of these circumstances represents a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern. Nevertheless following detailed assessment, the Directors have a reasonable expectation that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties including the financial risks of the business are discussed in detail throughout the Strategic Report and also in Note 16.

The Directors have ensured that the Group has effective systems for managing and mitigating significant risks, which, where relevant, incorporate performance management systems and appropriate remuneration incentives. In identifying and assessing these risks, the Directors consider the Group's short and long-term value, as well as the opportunities to enhance value that may arise from an appropriate response to such a risk.

DIRECTORS' REPORT continued

INTERNAL CONTROL

The Board of Directors has overall responsibility both for the Group's system of internal controls, which includes internal financial controls, and for reviewing their effectiveness. The Directors recognise that no system of internal control can provide absolute assurance. The Group's systems are designed to manage the risk of failure to achieve business objectives and therefore can only provide the Directors with reasonable assurance against material misstatement or loss.

The key elements of the Group's internal control system, which have been operational for the whole of the financial year, are as follows:

Management structure
The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. The Chief Executive Officer has been given responsibility for specific aspects of the Group's affairs. Reporting to the Chief Executive is the Executive Management Committee which is responsible for the day to day running of the Group's affairs.

Monitoring systems used by the Board
The Board receives regular reports on the financial and business performance of the Group. The Board is regularly advised through these reports on the working capital position and financial performance relative to the Group's approved budget.

Internal audit
The Board reviews from time to time the need for an internal audit function and remains of the opinion that the systems of internal financial control are appropriate to the Group's present activities and that such a function is unnecessary.

UK Bribery Act 2010
Annually all relevant employees and management are required to review the Bribery Act provisions and report any matters which may fall under the provisions for consideration by the Audit Committee. No matters have been noted.

REPORT OF THE AUDIT COMMITTEE

The audit committee has met and reviewed the Group's accounting policies, including detailed memorandums regarding key accounting policies, and judgements including the Group's going concern documentation, deferred tax asset position, investment in subsidiary valuation, and discussions regarding internal control testing and risk review. Additionally, the Committee met in advance of the half-yearly financial reporting prior to the Board approval to review the reporting, assumptions, judgements, and risks at that time.

The Committee reviewed the audit planning documents provided by Grant Thornton in advance of the audit and were satisfied with the scope, efficiency and effectiveness of the plan. The main risk areas include completeness and appropriateness of revenue recognition, carrying value of development costs, going concern of the Group, and potential management overrides of controls. Following the completion of audit field work, the committee reviewed the documented audit findings report and separately met with the auditors to discuss the interactions with management. The committee also reviewed the business risks and mitigating processes noted in the Strategic Report and are satisfied with the disclosures in light of the strategy of the Board and its risk appetite. During the year, there were no reported Bribery Act concerns or whistle-blower reports. Additionally, no material weaknesses were found related to internal controls during the year.

In accordance with auditing standards, Grant Thornton has advised the Company that the firm is independent within the meaning of regulatory and professional requirements and that the objectivity of the engagement partner and audit staff is not impaired. Having considered this opinion, the Committee believes that the continuing provision of audit service to the Group has not compromised the independence of the auditors in relation to their audit of the affairs of the Company and the Group. Additionally, the Committee discussed non-audit services performed during 2014 (see Note 5 to the consolidated Group financial statements for more detail) and ascertained that the work did not create an audit independence risk as it is performed by a separate engagement team and is for tax preparation services for the Group's US tax reporting requirements. Grant Thornton have been the auditors of record since the Company's shares were admitted to trading on AIM in 2002.

The committee requested a tender process be undertaken for the 2015 annual audit in accordance with best practices. Following completion of the process, the committee voted to retain the services of Grant Thornton LLP for the 2015 annual audit and made the recommendation to the Board.

The Board of Directors agreed with the committee's recommendations regarding the accounting policies, Annual Report and Accounts, and auditor selection.

CONFLICTS OF INTEREST

Under the Companies Act 2006, directors are subject to a statutory duty to avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts of interest of directors where the Articles of Association contain a provision to that effect. The Company's Articles of Association afford the Directors such powers. Directors who have an interest in matters under discussion at Board meetings are required to declare this interest and, subject to certain exceptions, to abstain from voting on the relevant matters. In addition, the Directors will be able to impose limits or conditions when giving any authorisation, if they think this is appropriate.

During the year, these procedures were followed and operated effectively.

AUDITOR

The auditor, Grant Thornton UK LLP, offer themselves for re-appointment in accordance with Section 489 of the Companies Act 2006. Following a review of their continued independence by the Audit Committee, a resolution for their re-appointment will be proposed at the AGM.

POST BALANCE SHEET EVENTS

Post balance sheet events are discussed in Note 26 to the consolidated Group financial statements.

DIVIDEND

The Directors do not propose the payment of a dividend (2013: nil). In due course, the Directors will consider the payment of dividends, as and when the Group is in a position to do so.

DIRECTORS' REPORT continued

PURCHASE OF OWN SHARES

During the Annual General Meeting in 2014, the Directors neither sought nor obtained permission from shareholders for any type of share buyback program and will not be doing so at the 2015 AGM.

FUTURE DEVELOPMENTS

The Group is focused on building a strong future. The discussion of the 2D technology business progress in the Strategic Report is a direct result of the emphasis that has been placed on utilising the strengths of the Group to return to growth and profitability following a downturn in the 3D PC market and the issues confronting the 3D mobile device market. The Group remains committed to ongoing research and development to ensure the successful transition into markets with strong growth potential while continuing to identify additional opportunities.

RESEARCH AND DEVELOPMENT

The development of new and innovative technology is a key strategy in the Group's business and investment in research and development continues to be a key element of that policy. Further discussion on the R&D initiatives is provided in the Strategic Report. The expenditure on research and development in the current year was $1,677,000 (2013: $1,597,000).

EMPLOYEE INVOLVEMENT

The Group recognises the importance and contribution of its employees. There is considerable value placed on the involvement of employees in the development of the business and their participation in the decision making process.

Presentations are made to all staff on a regular basis to encourage a full understanding of the Group's strategy, vision and operational developments. All employees are eligible for share awards and a number of employees have become shareholders thereby encouraging employee share ownership.

The Group is committed to the principle of equal opportunity in employment and to ensuring that no applicant or employee receives less favourable treatment on the grounds of age, gender, disability, ethnic origin, political or other opinion, religion or sexual orientation.

Disability is not seen as an inhibitor to employment or career development. Employees who become disabled are, wherever possible, given assistance to continue in their existing employment or to be trained for other positions.

CORPORATE SOCIAL RESPONSIBILITY

The Group recognises that it has responsibilities to all stakeholders which include employees, partners, customers, suppliers, the local community and the surrounding environment where it operates. Employees are highly regarded and valued, and their employment and other rights are respected. The Group is committed to the important principle of equal opportunity which is reflected in the Group's recruitment, disciplinary and grievance policies. The Group is dedicated to supplying products of top quality to meet its customers' requirements in a manner that is consistent with high environmental and ethical standards.

The Board understands and recognises the increasing importance of environmental issues, although it has limited direct impact on the environment since it is not involved in heavy industry or any direct manufacturing activity. Group premises are offices, with the main activity in the Group being the development of hardware and software designs by employees, involving neither the use of hazardous substances or complex waste emissions. The office buildings provide electronic and paper recycling programs as well as other environmentally responsible services which the subsidiary operations participate in.

POLITICAL DONATIONS

During the year, no political donations were made or political expenditure incurred by the Company or its subsidiaries.

SHARE CAPITAL

The Company's share capital includes two classes of securities: ordinary shares (par value of 1p) traded on AIM (more fully described in Note 22), and deferred shares (par value of 9p) with restricted rights created as a result of the 2008 share capital restructure more fully described in Note 10 to the consolidated Group financial statements.

There are no persons holding securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreement between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

There were 143,663,572 ordinary shares and 74,416,547 deferred shares in issue at 31 December 2014. The share price has ranged from a high of 7.88p to a low of 3.25p during the year with a closing price of 3.38p at 31 December 2014.

The past performance of the Company and it securities is not, and should not be relied on as, a guide to the future performance of the Company and its securities.

RELATIONS WITH SHAREHOLDERS

The Board welcomes the views of shareholders. The AGM is used as an opportunity to communicate with shareholders. All shareholders are encouraged to attend the Company's AGM in order to take advantage of the opportunity to ask questions of the Directors.

Shareholders may also contact the Company in writing or via its website. Additional information is supplied through the circulation of the Interim Report and the Annual Report and Accounts. During the year the Company issued a series of announcements to the London Stock Exchange.

The Chief Executive Officer, Chief Financial Officer and, from time to time, the Chairman or other Directors, meet individual and institutional shareholders and provide such information as is permissible in order to facilitate a better understanding of the Group's business and operations. Additionally, the Board usually receives shareholder feedback reports prepared by the Nominated Advisor following pre-arranged meetings with institutional fund managers and analysts.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2014 and as at 5 May 2015, the Company has been notified of the following shareholdings amounting to 3% or more of the issued share capital:

	31 December 2014		5 May 2015	
Shareholder	Number of ordinary 1p shares	Percentage of issued ordinary 1p share capital	Number of ordinary 1p shares	Percentage of issued ordinary 1p share capital
Arisawa Manufacturing Co., Ltd.	29,856,123	20.8%	29,856,123	18.0%
Michael Stubbs	10,148,740	7.1%	23,448,740	14.1%
Robert Morton	10,500,000	7.3%	13,000,000	7.8%
Directors	11,440,909	8.0%	11,440,909	6.9%
Nigel Wray	10,120,648	7.0%	10,420,648	6.3%
Wistron Corporation	9,919,831	6.9%	9,919,831	6.0%
InterDigital Finance Corporation	7,039,760	4.9%	7,039,760	4.2%
Edale Capital LLP	2,670,000	1.9%	5,170,000	3.1%
Hargreave Hale Limited	5,029,907	3.5%	5,029,907	3.0%

ANNUAL GENERAL MEETING (AGM)

The AGM will be held at 10:30 a.m. on Tuesday 9 June 2015 at 3 More London Riverside, London SE1 2AQ, United Kingdom. The business to be transacted at the meeting will be set out in full in the Notice convening the AGM. The results of the AGM will be announced following the AGM.

DIRECTORS' REPORT continued

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) and the consolidated accounts in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of both the Group and the parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance with, and subject to, those provisions.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This Directors' report, as set out on pages 12 through 25, was approved by the Board of Directors of DDD Group plc and signed on its behalf by:

Nicholas Brigstocke	**Christopher Yewdall**
Chairman	Chief Executive Officer
7 May 2015	7 May 2015

REMUNERATION REPORT

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee advises and makes recommendations to the Board on an appropriate remuneration policy for the Group. They are responsible for determining and agreeing with the Board the remuneration package of the executive directors of the Board. This includes basic salary, annual bonus, level of awards under the Employee Share Plan and the terms of any performance conditions that may apply to the exercise of such rights, determining the terms and conditions of service and any compensation payments, and to ensure that such remuneration levels are appropriate and acceptable.

During the financial year the members of this committee were Nicholas Brigstocke as Chairman, Paul Kristensen, Warren Littlefield (until his resignation in April 2014) and Hans Snook (appointed in June 2014). Norton Rose Fulbright LLP has provided independent general legal services as needed.

REMUNERATION POLICY

The main objectives of the policy are to ensure that pay and benefits packages are sufficiently competitive to attract, develop and retain high calibre executives. The Remuneration and Nomination Committee develops and implements measures aimed at maintaining remuneration packages that satisfy these objectives. It also seeks to align individual reward and incentives with the performance of the Group and, hence, with the interests of the shareholders.

Group performance evaluation criteria is reviewed annually and includes financial goals (such as revenue maximisation, budgetary controls and cash generation as measured through KPIs such as active licensees, shipment volumes, and material new licenses) as well as discretionary non-financial criteria (e.g. risk management, maintaining internal control systems, filing of new patents, creation of new products, and exploration of new markets).

A balance between fixed and variable pay is recognised to be important in remuneration packages. The current approach enables the variable portion to increase over time as the performance of the Company improves and to reduce if there is a decline in performance. The Committee has created a compensation plan that is salary based with variable components (share incentives and bonuses) available as the Group achieves established KPIs including profitability. The salaries are reviewed annual against industry data to ensure they are competitive in the appropriate labour market.

Share incentives

The Company is currently operating an Employee Share Scheme (ESS) which was approved by shareholders at the July 2003 AGM and amended with shareholder approval in February 2011. The share options granted under the ESS are granted at market value on the grant date and have no voting rights until issued on exercise after full payment of the option price and relevant taxation. Details of the outstanding historical grants under the plan as of the year end can be found in Note 21 of the Consolidated Group Financials.

Bonuses

Although the Directors have implemented a discretionary bonus pool (approx. 1% of targeted revenues) to be used to incentivise non-executive and non-commission eligible employees for major commercial contributions and/or the achievement of Group financial objectives, there were no accruals or bonus payments for the 2014 financial year.

DIRECTORS' REMUNERATION

The remuneration of the non-executive directors is established by the executive directors of the Board in consultation with the Company's Nominated Advisor. The Remuneration and Nomination Committee also has discussions with the Board in relation to the Board's annual report to shareholders on the Group's policy on the remuneration of the executive directors and in particular the Directors' Remuneration Report. No Board member is involved in deciding their own remuneration package. Director service agreements provide for only annual director fees and mandatory taxation under the law with a three-month notice period (no additional commitments or clauses). A Non-Executive Share Option Plan is available but no further awards have been made since 2011.

REMUNERATION REPORT continued

Directors' emoluments[1]

	Executive salary $'000	Director fees $'000	Benefits in kind[2] $'000	**Dec 2014 Earned $'000**	2014 Deferral[3] Total $'000	Dec 2014 Paid $'000	**Dec 2013 Total $'000**
Non-executive directors							
Nicholas Brigstocke[4]	—	96	9	**105**	24	81	**86**
Dr. Sanji Arisawa	—	49	—	**49**	12	37	**47**
Paul Kristensen[4]	—	54	—	**54**	9	45	**68**
Warren Littlefield[5]	—	16	—	**16**	—	16	**50**
Hans Roger Snook	—	52	4	**56**	13	43	**57**
Executive directors							
Christopher Yewdall	350	5	12	**367**	30	337	**367**
Victoria Stull	230	—	12	**242**	19	233	**242**
Total	**580**	**272**	**37**	**889**	**107**	**782**	**917**

1 There were no bonuses or pension payments during the period.

2 Benefits in kind are made up of health care costs paid by the Group for executive benefit only. Additionally, mandatory employer contributions to UK National Insurance and US Social Security are also included for applicable Directors.

3 In November 2014, the Directors agreed to wage deferrals until the financing was completed. The deferred wages will not be paid until such time as the Group's 2D technology contribution exceeds the financing plan.

4 In June 2013, Paul Kristensen resigned as Chairman of the Board and Nicholas Brigstocke was appointed as his replacement.

5 Warren Littlefield retired from the Board of Directors in April 2014 therefore the 2014 figure represents a partial-year of emoluments.

Directors' share incentives

Options to subscribe for ordinary shares in the Company for the year ended 31 December 2014:

Director	1 January 2014	Granted	Lapsed/ Cancelled	Exercised	31 December 2014	Exercise prices (pence)	Exercisable up to
Non-executive directors							
Nicholas Brigstocke	200,000	—	—	—	200,000	16.9p	4 Jan 2016
Dr. Sanji Arisawa	240,000	—	—	—	240,000	16.9p	4 Jan 2016
Paul Kristensen	160,000	—	—	—	160,000	16.9p	4 Jan 2016
Warren Littlefield[1]	130,000	—	—	—	N/A	16.9p	4 Jan 2016
Hans Roger Snook	200,000	—	—	—	200,000	16.9p	4 Jan 2016
Sub-Total (NED)	930,000	—	—	—	800,000		

1 Warren Littlefield retired from the Board of Directors in April 2014, the existing option grant is fully vested and remains exercisable until 4 Jan 2016 as indicated.

Director	1 January 2014	Granted	Lapsed/ Cancelled	Exercised	31 December 2014	Exercise prices (pence)	Exercisable up to
Executive directors							
Christopher Yewdall	1,000,000	—	—	—	1,000,000	17.5p	4 Jan 2016
	1,000,000	—	—	—	1,000,000	27.25p	13 Feb 2017
	300,000	—	—	—	300,000	25p	8 July 2017
	2,300,000	—	—	—	2,300,000		
Victoria Stull	125,000	—	(125,000)	—	—	13.9p	4 Dec 2014
	400,000	—	—	—	400,000	17.5p	4 Jan 2016
	500,000	—	—	—	500,000	27.25p	13 Feb 2017
	150,000	—	—	—	150,000	25p	8 July 2017
	1,175,000	—	(125,000)	—	1,050,000		
Sub-total (ED)	3,475,000	—	(125,000)	—	3,350,000		
Grand Total	**4,405,000**	**—**	**(125,000)**	**—**	**4,150,000**		

Directors' interests

The disclosable interests of the Directors at 31 December 2014 including shareholdings, if any, of wives and children aged under 18 is presented as follows:

	31 December 2013	31 December 2014	5 May 2015
Nicholas Brigstocke	2,007,045	2,007,045	2,007,045
Christopher Yewdall	2,681,808	2,681,808	2,681,808
Victoria Stull	126,000	251,000	251,000
Dr. Sanji Arisawa	1,989,200	1,989,200	1,989,200
Paul Kristensen	455,204	455,204	455,204
Warren Littlefield[1]	515,000	N/A	N/A
Hans Roger Snook	4,056,652	4,056,652	4,056,652

[1] Warren Littlefield resigned from the Board of Directors in April 2014

Contractual interests

Other than the Convertible Unsecured Loan Notes issued in July 2014 and more fully described in Note 17 and Notes 25 and 26 to the Consolidated Financial Statements, no Director had, during or at the end of the year, a material interest in any contract that was significant in relation to the Group's business.

This report was approved by the Board and was signed on its behalf by:

Nicholas Brigstocke
Remuneration and Nomination Committee Chairman
7 May 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DDD GROUP PLC

We have audited the Group financial statements of DDD Group plc for the year ended 31 December 2014 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 22, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - going concern

In forming our opinion on the Group financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 1 to the Group financial statements concerning the Group's ability to continue as a going concern.

The Group incurred a net loss of $2,909,000 during the year ended 31 December 2014.

As explained in Note 1 to the Group financial statements, the Directors have prepared cash flow forecasts up to 31 December 2018. Forecast revenue includes existing contracts and new revenue streams arising from contracts which are in the negotiation phase; however, there is uncertainty that contract negotiations will be finalised.

These conditions, along with the other matters explained in Note 1 to the Group financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The Group financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent Company financial statements of DDD Group plc for the year ended 31 December 2014. That report includes an emphasis of matter.

Christopher Smith

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
7 May 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2014

	Notes	31 Dec 2014 $'000	Restated 31 Dec 2013 $'000
Revenue	3	**2,533**	3,386
Cost of sales	3	**(5)**	(30)
Gross profit	3	**2,528**	3,356
Depreciation/amortisation expense	11, 12	**(1,282)**	(1,291)
Share based payments	21	**(148)**	(426)
Other administration expenses		**(3,153)**	(3,974)
Total administrative expenses		**(4,583)**	(5,691)
Other income		**340**	415
Operating (loss)/profit		**(1,715)**	(1,920)
Analysed as:			
(Loss)/earnings before interest, taxes, depreciation, amortisation and share based payments (Adjusted EBITDA)		**(285)**	(203)
Depreciation/amortisation expense		**(1,282)**	(1,291)
Share based payments		**(148)**	(426)
		(1,715)	(1,920)
Finance (expense)/income	4	**(105)**	11
(Loss)/profit from continuing operations before tax		**(1,820)**	(1,909)
Income tax expense	8	**(389)**	(581)
Loss for the period from continuing operations		**(2,209)**	(2,490)
Loss of the discontinued Yabazam 3D streaming movie service	9	**(700)**	(416)
(Loss) for the year		**(2,909)**	(2,906)
Other comprehensive (loss)/income for the year:			
Exchange differences on translation of foreign operations which will be subsequently reclassified to profit and loss		**(42)**	(165)
Other comprehensive (loss)/income for the year, net of tax		**(42)**	(165)
Total comprehensive (loss)/income for the year		**(2,951)**	(3,071)
(Loss) per share:			
Continuing Operations – Basic & Diluted (per share)	10	**($0.015)**	($0.018)
Total Operations – Basic & Diluted (per share)	10	**($0.020)**	($0.021)

The accompanying principal accounting policies and notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2014

	Notes	31 Dec 2014 $'000	Restated 31 Dec 2013 $'000	31 Dec 2012 $'000
Assets				
Non-current assets				
Intangible assets	11	**3,041**	3,091	2,592
Property, plant and equipment	12	**32**	87	139
Restricted Cash	16	**72**	—	—
Deferred tax asset	13	**1,096**	1,096	1,096
Total non-current assets		**4,241**	4,274	3,827
Current assets				
Inventory	14	**—**	6	7
Trade and other receivables	15	**571**	506	1,678
Cash and cash equivalents	16	**697**	2,661	3,595
Total current assets		**1,268**	3,173	5,280
Total assets		**5,509**	7,447	9,107
Equity and liabilities				
Capital and reserves				
Issued capital	22	**12,636**	13,414	13,005
Share premium	22	**17,467**	18,543	17,069
Merger reserve		**20,627**	21,898	21,469
Share based payment reserve		**1,849**	1,861	1,515
Translation reserve		**124**	(3,072)	(1,825)
Retained earnings		**(49,605)**	(46,743)	(43,968)
Total equity		**3,098**	5,901	7,265
Non-current liabilities				
Financial liabilities	17	**912**	—	—
Deferred tax liabilities	18	**582**	619	543
Total non-current liabilities		**1,494**	619	543
Current liabilities				
Trade and other payables	19	**917**	927	1,299
Total current liabilities		**917**	927	1,299
Total liabilities		**2,411**	1,546	1,842
Total equity and liabilities		**5,509**	7,447	9,107

The consolidated financial statements were approved by the board of Directors on 7 May 2015 and signed on its behalf by:

Christopher Yewdall
Chief Executive Officer
Company number: 04271085

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

	Notes	12 months to 31 Dec 2014 $'000	Restated 12 months to 31 Dec 2013 $'000
Cash flows from operating activities			
(Loss)/profit for the year		**(2,909)**	(2,906)
Finance (expense)/income in the consolidated statement of comprehensive income		**105**	(11)
Tax in the consolidated statement of comprehensive income		**389**	581
Debt issuance costs in the consolidated statement of comprehensive income		**70**	—
Amortisation	11	**1,363**	1,313
Depreciation	12	**58**	86
Loss on disposal of assets		**399**	23
Share based payments		**148**	426
Decrease/(increase) in inventory		**6**	1
Decrease/(increase) in trade and other receivables		**(65)**	1,172
(Decrease)/increase in trade and other payables		**(10)**	(372)
Net cash (used in)/generated by operations		**(446)**	313
Income tax paid	8	**(453)**	(503)
Net Interest (paid)/received	4	**(19)**	11
Net cash (used in)/generated by operating activities		**(918)**	(179)
Cash flows from investing activities			
Restricted cash deposit		**(72)**	—
Payments for intangible assets	11	**(1,818)**	(1,852)
Payments for property, plant and equipment	12	**(4)**	(45)
Net cash used in investing activities		**(1,894)**	(1,897)
Cash flows from financing activities			
Proceeds from the issue of loan note	17	**906**	—
Proceeds from issue of equity shares	22	**—**	1,292
Issuance costs		**(70)**	(11)
Net cash generated by financing activities		**836**	1,281
Net (decrease)/increase in cash and cash equivalents		**(1,976)**	(795)
Exchange (losses)/gains		**12**	(139)
Total (decrease)/increase in cash and cash equivalents		**(1,964)**	(934)
Cash and cash equivalents at the start of the year		**2,661**	3,595
Cash and cash equivalents at the end of the year		**697**	2,661

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014

	Share capital $'000	Share premium $'000	Merger reserve $'000	Share based payment reserve $'000	Translation reserve $'000	Retained earnings $'000	Total equity $'000
At 1 January 2013	**13,005**	**17,069**	**21,469**	**1,515**	**(1,825)**	**(43,968)**	**7,265**
Transactions with owners							
Issue of shares	148	1,133	—	—	—	—	1,281
Share based payment reserve transfer[1]	—	—	—	(131)	—	131	—
Equity settled share options	—	—	—	426	—	—	426
Foreign exchange differences	261	341	429	51	(1,082)	—	—
Total transactions with owners	409	1,474	429	346	(1,082)	131	1,707
Comprehensive income							
Total profit for the year – reported	—	—	—	—	—	(2,569)	(2,569)
Restatement effect on profit for the year						(337)	(337)
Other comprehensive income – Foreign exchange	—	—	—	—	(165)	—	(165)
Total comprehensive income – restated	—	—	—	—	(165)	(2,906)	(3,071)
At 31 December 2013 – restated	**13,414**	**18,543**	**21,898**	**1,861**	**(3,072)**	**(46,743)**	**5,901**
Transactions with owners							
Issue of shares	—	—	—	—	—	—	—
Share based payment reserve transfer[1]	—	—	—	(47)	—	47	—
Equity settled share options	—	—	—	148	—	—	148
Foreign exchange differences	(778)	(1,076)	(1,271)	(113)	3,238	—	—
Total transactions with owners	(778)	(1,076)	(1,271)	(12)	3,238	47	148
Comprehensive loss							
Total loss for the year	—	—	—	—	—	(2,909)	(2,909)
Other comprehensive loss – Foreign exchange	—	—	—	—	(42)	—	(42)
Total comprehensive loss	—	—	—	—	(42)	(2,909)	(2,951)
At 31 December 2014	**12,636**	**17,467**	**20,627**	**1,849**	**124**	**(49,605)**	**3,098**

[1] Reserve transfer for exercised, forfeited and expired options.

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION

The consolidated Group financial statements are for the year ended 31 December 2014. They have been prepared in compliance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union and company law applicable to companies reporting under IFRS as at 31 December 2014.

Restatement of 2013 accounts:

The 2013 financial results have been restated for the Yabazam discontinued operation (reclassification of $416,000 to loss from discontinued operation as described more fully in Note 9) and to correct a formulaic error. The formulaic error arose in consolidation. The correction of the error increased amortisation expense and accumulated amortisation by $337,000; thereby increasing the total loss after tax for the 2013 financial year to $2,906,000 (loss per share: 2.1 cents/share compared to 1.86 cents loss per share previously reported) and reducing the net book value of intangible assets reported in 2013 to $3,091,000 from $3,428,000. The restatements have no net effect on the consolidated statement of cash flow given that the formulaic error was in reference to a non-cash item.

Impact of restatement on profit and loss statement (effected line items only):

	2013 Original	Disc Ops	Error	2013 Restated
Revenue	3,400	(14)	—	3,386
COGS	(39)	9	—	(30)
Gross Profit	3,361	(5)	—	3,356
Admin Expenses	(4,287)	313	—	(3,974)
Depreciation/Amortisation	(1,062)	108	(337)	(1,291)
Loss before tax	**(1,999)**	**416**	**(337)**	**(1,920)**
Loss after tax Continuing Ops	**(2,569)**	**416**	**(337)**	**(2,490)**
Disc Ops	—	(416)	—	(416)
Loss after Tax	**(2,569)**	**—**	**(337)**	**(2,906)**

Impact of restatement on statement of financial position (effected line items only):

	2013 Original	Disc Ops	Error	2013 Restated
Intangible assets	3,428	—	(337)	3,091
Long-term assets	**4,611**	**—**	**(337)**	**4,274**
Total assets	**7,784**	**—**	**(337)**	**7,447**
Retained earnings	(46,406)	—	(337)	(46,743)
Total equity	**6,238**	**—**	**(337)**	**5,901**
Total equity & liabilities	**7,784**	**—**	**(337)**	**7,447**

Impact of restatement on consolidated statement of cash flows (effected line items only):

	2013 Original	Disc Ops	Error	2013 Restated
Loss after tax	(2,569)	—	(337)	(2,906)
Amortisation	**976**	**—**	**337**	**1,313**
Net cash generated by operations	**313**	**—**	**—**	**313**

Going Concern Review:

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 11.

The recently completed financing (announced 9 March 2015 and completed 1 April 2015) provides sufficient working capital through to the end of 2015 with modest revenue assumptions from new products. The Directors have prepared cash flow forecasts up to 31 December 2018 under various scenarios based on performance assumptions for the 2D and 3D business units which indicate the Company will have access to sufficient cash. The revenue forecast includes assumptions regarding existing contracts and new revenue streams arising from contracts which are in the negotiation phase; however, there is uncertainty that contract negotiations will be finalised.

NOTES TO THE ACCOUNTS continued

If there are material adverse variances against these forecasts, the Company is able to institute measures to take mitigating actions to manage cash resources and access additional funding from strategic sources if required.

The Directors have concluded that the combination of these circumstances represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Nevertheless after making enquiries, the Directors have a reasonable expectation that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Standards and amendments to existing standards effective 1 January 2014

The following standards, amendments and interpretations became effective in 2014:

Standard/ interpretation	Content	Applicable for financial years beginning on/after
Amendments to IAS 36*	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
IFRS 10*	Consolidated Financial Statements	1 January 2014
IFRS 11*	Joint Arrangements	1 January 2014
IFRS 12*	Disclosure of Interests in Other Entities	1 January 2014
IAS 27* (Revised)	Separate Financial Statements	1 January 2014
IAS 28* (Revised)	Investments in Associates and Joint Ventures	1 January 2014
Amendment to IFRS 10, IFRS 11 and IFRS 12*	Transition Guidance	1 January 2014
Amendment to IFRS 10*	Investment Entities	1 January 2014
Amendments to IAS 32*	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRIC Interpretation 21*	Levies	1 January 2014

* The adoption of these Standards and Interpretations has had no material impact on the financial statements of the Group.

New standards and interpretations currently in issue (as at 2 February 2015) but not effective, based on EU mandatory effective dates, for accounting periods commencing on 1 January 2014 are:

Standard/interpretation	Content	Applicable for financial years beginning on/after
Annual Improvements to IFRSs	2011-2013 Cycle	1 January 2015
Annual Improvements to IFRSs	2010-2012 Cycle	1 February 2015
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions	1 February 2015
Annual Improvements to IFRSs	2012-2014 Cycle	1 January 2016*
IFRS14	Regulatory Deferral	1 January 2016*
Amendments to IFRS 11	Accounting for Acquisitions of interests in Joint Operations	1 January 2016*
Amendments to IAS 16 and IAS 41	Bearer Plants	1 January 2016*
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	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 IAS 27	Equity Method in Separate Financial Statements	1 January 2016*
IFRS 15	Revenue from Contracts with	1 January 2017*
IFRS 9	Financial Instruments	1 January 2018*

* Not yet adopted by the EU.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Generally there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Foreign currency translation

a) Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currencies of Group entities are US Dollars, Australian Dollars and Pounds Sterling. The parent Company's functional currency is Pounds Sterling and the Group's presentational currency is US Dollar.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses are recognised in profit or loss, including those resulting from the settlement of such transactions and from the translation at reporting period end exchange rates of monetary assets and liabilities denominated in foreign currencies.

c) Group companies

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentational currency as follows:

i. Assets, liabilities and equity balances for each reporting presented are translated at the closing rate at the date of the balance sheet.

ii. Income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates during the reporting period where this approximates actual exchange movements, otherwise actual rates are used, and;

iii. All resulting exchange differences arising from the translation of the net investment in foreign entities are taken to equity. Differences initially brought to equity are recycled to the consolidated statement of comprehensive income on disposal of the foreign operations.

The Group has taken advantage of the exemption in IFRS 1 which allows all foreign exchange differences on consolidation to be set at zero at transition and the foreign exchange reserve therefore only shows post transition foreign exchange differences.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker ("CODM"). The CODM is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined that its CODM is the Board of Directors of the Group.

The segmental information provided to the Board can be found in Note 3 – Segmental reporting.

Revenue recognition

Revenue is the fair value of the total amount receivable by the Group for supplies of products when risks and rewards of ownership have been transferred and for services, the timing of revenue recognition depends on the assessed stage of completion of contract activity at the reporting date. VAT or similar local taxes and trade discounts are excluded.

Revenue comprises income from the supply of products, license payments, consultancy income and royalty income (excluding VAT) incurred in the normal course of business.

NOTES TO THE ACCOUNTS continued

Licensing
License income is recognised on a straight-line basis over the period to which the license payment relates. The amount of any prepayment associated with the license agreement is deferred and recognised as revenue over the period as above or immediately upon termination of the underlying contractual agreement. This deferred income is included in 'other liabilities'.

Royalties
Royalties are earned on manufacture by the Group's licensees of mobile telephones, tablet PCs, personal computers and monitors and video processing chips incorporating the Company's intellectual property. Royalty revenues are recognised when the Company receives notification from licensees of product manufacture, or where there has been sufficient information given by the licensee for the revenue to be measured reliably and have a sufficient degree of certainty. In the case where royalty advance payments are received, the Group recognises the advance royalty as a customer prepayment and it is recorded as a liability, even if there is no contractual obligation for the Company to reimburse the unused advance royalty to the licensee. Once the licensee reports product manufacture, the corresponding amount of the royalty advance is recognised as revenue in the period for which notification is received from the licensee. VAT or similar local taxes and trade discounts are excluded.

Software sales
Software sales revenues are earned on consumer and reseller purchases of the TriDef 3D PC software products currently sold on the TriDef.com website and the Group's App sales via Google Playstore and the Apple store. The revenues are recognised when the Group receives transaction confirmation from the payment processors which causes the automatic electronic delivery of the license code to the consumer to activate the software for use.

Consulting
Consultancy income is recognised on a stage of completion basis. The majority of the Group's consulting contracts involve detailed specifications of the work to be performed or the items to be delivered as part of the agreement. Additionally, the agreements are generally negotiated with applicable "milestone payments" relevant to the agreed value for completing the items identified.

Interest income and expense recognition
Interest income and expenditure are reported on an accruals basis. Dividends received would be recognised at the time of their distribution.

Operating expenses
Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

Profit or loss from discontinued operations
A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

Profit or loss from discontinued operations, including prior year components of profit or loss, is presented in a single amount in the statement of profit or loss. This amount, which comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets, is further analysed in Note 9.

Intangibles
The Group has registered a number of patents that are initially recognised at cost and carried at cost less accumulated amortisation and impairment losses. Amortisation is over a five-year period on a straight-line basis and is recognised in the 'Depreciation/amortisation expenses' line of the consolidated statement of comprehensive income.

The Group also recognises external website and application development costs as intangibles. Amortisation of these intangibles is over a three to five year period on a straight-line basis and is recognised in the 'Depreciation/amortisation expenses' line of the consolidated statement of comprehensive income.

Internally generated intangible assets
An internally generated intangible asset arising from development (or the development phase) of an internal project is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Expenses capitalised consist of employee costs incurred on developing software and a portion of appropriate overhead. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. The expected life of internally generated intangible assets varies based on the anticipated useful life, currently ranging from two to five years.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over three to five year lives and is reported in the 'Depreciation/Amortisation expenses' line of the consolidated statement of comprehensive income.

Research expenditure is recognised as an expense in the period in which it is incurred.

Property, plant and equipment
Property, plant and equipment are recorded at cost net of accumulated depreciation and any provision for impairment. Depreciation is provided using the straight-line method to write off the cost of the asset less any residual value over its useful economic life as follows:

Short leasehold improvements	The shorter of the useful life of the asset or the term of the lease
Fixtures, fittings and equipment	3 to 7 years

The residual value, useful economic life and the depreciation method are reviewed at each financial year-end.

Impairment testing of intangible assets and property, plant and equipment
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Taxation
Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using rates substantially enacted at the reporting date, and any adjustments to tax payable in respect of prior years.

Deferred tax is provided in full on temporary differences between the carrying amounts of assets and liabilities in the Group financial statements and the amounts used for taxation purposes. Deferred tax is calculated at the tax rates that have been enacted or substantially enacted at the reporting date. Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax liabilities are recognised for taxable temporary differences, unless specifically exempt.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax assets and liabilities comprise those obligations to fiscal authorities in the countries in which the Group carries out its operations or does business. They are calculated according to the tax rates and tax laws applicable to the fiscal year and the country to which they relate. All changes to current tax liabilities are recognised as a component of tax expense in the consolidated statement of comprehensive income.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the consolidated statement of comprehensive income, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

The Group has taken advantage of the initial recognition exemptions in IAS 12 prohibiting the recognition of deferred tax on temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable profit.

Financial assets
Financial assets consist of cash and cash equivalents and trade and other receivables. Trade and other receivables are initially recognised at fair value less transaction costs and subsequently at amortised cost less any impairment. An assessment for impairment is undertaken at least at each reporting date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

De-recognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each reporting date whether or not there is objective evidence that a financial asset or a Group of financial assets is impaired.

Financial liabilities
The Group's financial liabilities include trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in profit or loss.

Trade payables are recognised initially at their fair value and subsequently measured at amortised costs less settlement payments.

Dividend distributions to shareholders are included when the dividends are approved by the shareholders meeting.

Compound instruments
The component parts of compound instruments, comprising convertible loan notes issued by the Company, are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated. For convertible loan notes, this amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component on initial measurement from the fair value of the compound instrument as a whole. This is recognised and included in equity and is not subsequently re-measured.

Cash and cash equivalents
Cash and cash equivalents include cash at bank and in hand as well as short term bank deposits.

Share based employee compensation

The Group operates equity settled share based compensation plans for remuneration of its employees. All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share option awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (e.g. profitability or sales growth targets).

The Group's share option schemes provide for an exercise price equal to either a) the average middle market price of the Group's shares over the five dealing days prior to the date of grant or par value, whichever is higher or b) the average middle market price of the Group's shares on the date of the grant or par value, whichever is higher, depending on the applicable plan rules for the employee's jurisdiction. The vesting period ranges from the date of grant up to five years. If options remain unexercised after a period of five years from the date of grant, the options expire and are returned to the unused share option pool. Furthermore, if an option holder leaves the Group on good terms before their options vest, the unexercised and unvested options are forfeited up to six months after the date of their departure.

The Group has a current share option scheme under which options currently in issue were been granted on various dates between October 2010 and July 2012.

All share-based compensation is ultimately recognised as an expense in profit or loss with a corresponding credit to a share based payment reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of shares options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately vest than originally estimated.

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs up to the nominal value of the shares issued, are reallocated to share capital with any excess being recorded as additional share premium.

Employment benefit plans

Defined contribution plans

The Group pays fixed contributions into independent entities in relation to several state plans and insurances for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that relevant employee services are received.

Significant management judgement in applying accounting policies

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements.

Capitalisation of development costs

Management monitors progress of internal research and development projects. Significant judgement is required in distinguishing research from the development phase. Development costs are recognised as an asset when all the criteria are met, whereas research costs are expensed as incurred.

The Group's management also monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

For further details refer to Note 11.

Revenue recognition

The majority of the Group's royalty revenue is derived from quarterly licensee reporting of product shipments which include the Group's technologies. Although management has audit rights in the contracts, management judgement is applied in acceptance of the quantities reported by the licensee as being materially accurate based on available market research, industry knowledge and direct client correspondence. Acceptance of the report leads to revenue recognition but does not waive any applicable audit rights under the applicable license agreement.

NOTES TO THE ACCOUNTS continued

Convertible Loan Notes – Initial measurement
In July 2014 the Company issued £535,000 (before expenses) of unsecured Convertible Loan Notes (the '2014 Notes'). While in legal form the 2014 Notes are a liability of the Company, IFRSs requires the Group to identify the equity and liability component parts of the instrument and assign a value to each. Identification and valuation of the components requires management to exercise judgment. Further details are provided in Note 17.

Estimation uncertainty
When preparing the financial statements, management makes a number of estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results. Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below.

Impairment
An impairment loss is recognised for the amount by which the asset's or cash generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Group's assets within the next financial year. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

For further details refer to Note 11.

Revenue recognition
For consulting projects, management uses judgement to assess the value of the stage of completion at each reporting date. This assessment requires the expected total contract revenues and costs to be estimated based on the current progress of the contract.

Recoverability of deferred tax assets
The Group assesses recoverability of deferred tax assets with reference to Board approved forecasts of future taxable profits and past history of tax loss utilisation by the Group's subsidiaries. The Group has recognised a deferred tax asset in its financial statements to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Equity
Equity comprises the following:

- "Issued capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Merger reserve" results from the acquisition of Dynamic Digital Depth Inc. in 2002 being the premium on shares issued as consideration qualifying for merger relief under the Companies Act.
- "Share based payment reserve" represents equity-settled share-based employee remuneration until such share options are exercised, and accounted for under IFRS 2.
- "Translation reserve" represents the differences arising from translation of investments in overseas subsidiaries and translation into presentational currency of the equity balances of the parent company.
- "Retained earnings" represents retained profits and losses.

3. SEGMENTAL REPORTING

In accordance with IFRS 8, operating segments are reporting in a manner that is consistent with the internal reporting provided to the Board of Directors, the chief operating decision maker. Management information that is regularly reported to the Board for the purposes of allocating resources and monitoring performance is the monthly board report. The Board report contains an analysis of revenue for the Group's activities. At present, given the size of the Group, costs of goods sold and operating expenses cannot be allocated on a reasonable basis to the segments below and, as a result, the segmental analysis is limited to the Group gross profit.

With the discontinuation of the Yabazam business, the Group is currently only operating one segment for technology licensing.

	2014 $'000	Restated 2013 $'000
Revenues:		
3D Technology:		
License fees	**20**	–
Royalties from OEM units shipments	**2,367**	3,132
Other licensing royalties	**29**	51
Software sales – direct to consumer	**117**	203
Revenue from the Group's 3D technologies:	**2,533**	3,386
Other revenue streams	**—**	–
Total revenue	**2,533**	3,386
Cost of goods sold	**(5)**	(30)
Gross profit	**2,528**	3,356
Margin	**99.8%**	99.1%

	2014 $'000	Restated 2013 $'000
Identifiable assets:		
Trade and other receivables:		
Licensing	**484**	387
Other	**—**	–
Total	**484**	387
Intangible Assets – licensing	**3,008**	2,705
Intangible Assets – publishing (discontinued op – Note 9)	**—**	328
Other unallocated assets	**2,501**	4,414
Total net assets	**5,509**	7,447
Identifiable liabilities:		
Deferred revenues – customer deposits:		
Licensing	**260**	260
Other unallocated liabilities	**2,151**	1,286
Total liabilities	**2,411**	1,546

All other assets and liabilities of the Group in addition to the operating expenses are not provided or reviewed at a segmental level.

NOTES TO THE ACCOUNTS continued

Major customers

The customers contributing over 10% to the gross revenues of the Group are as noted in the following table:

	2014 $000	%	2013 $000	%
Customer A (2014/13: 100% Royalties)	2,339	92.3%	2,391	70.6%
Customer B (2014/13: 100% Royalties)	1	0%	377	11.1%
Major customer total	2,340	92.4%	2,768	81.7%
All other sources	193	7.6%	618	18.3%
Total gross revenues	2,533	100.0%	3,386	100.0%

Regional breakdown

The majority of the Group's revenues (2014: 95%; 2013: 95%) are from customers based in the Asia Pacific region.

4. FINANCE (EXPENSE)/INCOME

	2014 $'000	2013 $'000
Finance income (bank interest received)	**6**	11
Finance expense:		
Interest paid in the period	**(24)**	—
Interest accrued in the period	**(1)**	—
Finance charge (non-cash change in valuation of financial liabilities)	**(86)**	—
	(111)	—
Net finance (expense)/income	**(105)**	11

5. (LOSS)/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

(Loss)/profit before tax has been arrived at after charging/(crediting):	**2014 $'000**	Restated 2013 $'000
Foreign exchange loss/(gain)	**56**	(68)
Depreciation and amortisation:		
Depreciation of property, plant and equipment (Note 12)	**58**	86
Amortisation of intangible assets (Note 11)	**1,363**	1,205
Employee benefits expense:		
Employee costs (Note 7)	**3,664**	4,604
Other operating leases	**383**	403
Audit and non-audit services:		
Fees payable to the Company's auditor for the audit of the Group accounts	**80**	87
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**—**	—
Tax services	**15**	56
Other services pursuant to legislation	**—**	—

During the year the Group's Australian subsidiary received a tax refund of research and development expenditures from the Australian Government. The other income category includes the refund of $287,000 (2013: $369,000).

The research and development refund along with subtenant rental income comprises the majority of the income reported as 'Other income' in the consolidated statement of comprehensive income. Beginning in November 2014, there will no longer be subtenant income due to the relocation to a new Australian office discussed in Note 20.

Tax services provided by Grant Thornton included tax return preparation for US subsidiaries.

6. REMUNERATION OF KEY MANAGEMENT PERSONNEL

	2014 $'000	2013 $'000
Emoluments	**714**	747
Emoluments – highest paid director	**355**	355
Pension costs – defined contribution plans	**20**	21
Social security contributions	**28**	39
Share based payment – share options	**125**	253
	1,242	1,415

Directors and officers are considered key management personnel. The amount set out above includes remuneration in connection with the full-time employment of the Chief Executive Officer (Director), Chief Financial Officer (Director), and Chief Technology Officer in addition to the non-executive Director fees. The pension plan is only available to employees of the Australian subsidiaries, of which 1 is included in the above line item (2013: 1).

The amounts above are the total earned/accrued amounts during the period. As noted in the Remuneration report on page 24 of the Annual Report, the Directors agreed to defer a portion of their compensation in 2014 until such time as the Group is in a position to settle the deferred amounts. Total deferred wages are $107,000 in FY2014 (2013: nil).

7. EMPLOYEES

	2014 $'000	2013 $'000
Employee costs:		
Wages and salaries	**3,316**	3,919
Pension costs	**124**	157
Social security costs	**76**	102
Share based payments – share options	**148**	426
	3,664	4,604
The average number of employees during the year was made up as follows:		
Dedicated research and development	**6**	7
Hardware engineering	**1**	2
Software engineering	**6**	6
Sales	**5**	6
Finance and administration	**5**	6
Content	**1**	3
Total staff	**24**	30
Non-executive directors (NEDs)	**4**	5
Grand total	**28**	35

Total number of full-time employees at year end was 20 (2013: 27).

NOTES TO THE ACCOUNTS continued

8. INCOME TAX

	2014 $'000	2013 $'000
Current tax:		
Current year tax charge	**453**	503
Total current tax	**453**	503
Deferred tax asset movement	**—**	—
Deferred tax liability movement	**(64)**	78
	389	581

The tax assessed for the year differs from the standard rate of corporation tax as applied in the respective trading domains where the Group operates. The tax charge on ordinary activities is explained below:

	2014 $'000	Restated 2013 $'000
(Loss)/profit on ordinary activities before tax	**(1,820)**	(1,910)
(Loss)/profit at 20% (2013: 23.5%)	**(364)**	(449)
Effects of:		
Higher foreign tax rates	**(280)**	(142)
Income / Expenses not deductible for tax purposes	**(106)**	(20)
Estimated usage of subsidiary historical losses to cover income tax	**(224)**	(104)
Tax losses carried forward	**778**	664
Movement of deferred tax asset (Note 13)	**—**	—
Other temporary differences	**132**	129
Foreign withholding tax	**453**	503
Tax charge on ordinary activities	**389**	581

Given that a large majority of the Group's revenues are derived from licensees in Asia, foreign withholding taxes deducted at source on royalties and licenses from these countries create the majority of the income tax expense recorded in the Group accounts. These taxes will be available as future foreign tax credits for the US subsidiary and therefore are reflected as increased future potential deferred tax assets ("DTA").

There are substantial unrelieved tax losses and tax credits of $40,672,000 (2013: $42,658,000) across the Group companies as set out below:

	USA $'000	UK $'000	Australia $'000	Total $'000
At 31 December 2014				
Unrelieved tax losses & credits	**15,343[1]**	**7,250**	**18,078**	**40,671**
Local rate of tax	**40%[2]**	**20%**	**30%**	
Potential deferred tax asset	**6,137**	**1,450**	**5,423**	**13,010**
DTA recognised	**—**	**—**	**(1,096)**	**(1,096)**
Unprovided potential deferred tax asset	**6,137**	**1,450**	**4,327**	**11,914**
At 31 December 2013				
Unrelieved tax losses & credits	15,445[1]	6,132	21,081	42,658
Local rate of tax	40%[2]	20%	30%	
Potential deferred tax asset	6,178	1,226	6,324	13,728
DTA recognised	—	—	(1,096)	(1,096)
Unprovided potential deferred tax asset	6,178	1,226	5,228	12,632

1 During 2011, the Company reviewed its tax losses consistent with the requirements of US tax authorities (Internal Revenue Code Section 382). This review resulted in an anticipated $3.5 million reduction to unrelieved tax losses (included above).

2 US effective tax rate including federal and state income taxes is anticipated to be 40% based on current tax law.

At 31 December 2014, the availability to offset unrelieved tax losses against future taxable trading profits may be subject to restrictions in the respective tax jurisdictions. The entire deferred tax asset has not been recognised due to the uncertainty of the timing and recoverability of the asset. The remaining asset will be recovered in line with future profits.

NOTES TO THE ACCOUNTS continued

9. DISCONTINUED OPERATIONS

In December 2014, the Yabazam 3D streaming movie service was closed and the operation discontinued. The headcount attributed to the Yabazam service had been reduced in 2013 and again in 2014. Additionally, much of the development of the Yabazam apps was through a third-party and capitalised in intangible assets. There were some initiatives that were developed by the Australian R&D team which was part of the IFRS asset. The development work was halted in April 2014.

The closure resulted in disposals of R&D, other intangible assets, and inventory. The other income/(expense) line item includes non-cash loss on assets in 2014 of $395,000 and a loss on inventory in 2014 of $6,000.

Yabazam streaming movie service	2014 $'000	2013 $'000
Total revenues and other income	8	14
Cost of goods sold	(5)	(9)
Gross margin	3	5
Depreciation/Amortisation (see Notes 11 & 12)	(139)	(108)
Administrative expenses	(163)	(313)
Other income/(expense)	(401)	—
Finance charges	—	—
Loss before taxation	(700)	(416)
Taxation	—	—
Loss after taxation	(700)	(416)
Cash flows associated with the Yabazam division		
Operating activities	(160)	(308)
Investing activities (see Notes 11&12)	(108)	(284)
Financing activities	—	—
	(268)	(592)
Discontinued Operations (loss) for the year attributable to equity shareholders	(700)	(416)
Discontinued Operations (loss) per share: Basic & Diluted (per share)	$(0.005)	$(0.003)

10. (LOSS)/PROFIT PER SHARE

	2014 $'000	Restated 2013 $'000
Continuing Operations (loss) for the year attributable to equity shareholders	**(2,209)**	(2,490)
Continuing Operations (loss) per share:		
Basic & Diluted (per share)	**$(0.015)**	$(0.018)
Total (loss) for the year attributable to equity shareholders	**(2,909)**	(2,906)
Total (loss) per share:		
Basic & Diluted (per share)	**$(0.020)**	$(0.021)

	Shares	Shares
Issued ordinary shares par 1p at start of the year	**143,663,572**	134,628,812
Ordinary shares issued in the year	**—**	9,034,760
Total outstanding ordinary shares at end of the year	**143,663,572**	143,663,572
Weighted average number of ordinary shares for the year	**143,663,572**	138,221,427
Deferred shares:		
Issued deferred shares[1] at the start and end of the year	**74,416,547**	74,416,547
Total share capital (Issued & Outstanding)	**218,080,119**	218,080,119

[1] Deferred Shares:

On 5 July 2008 the share capital of the Company was split so that a total of 74,416,547 ordinary shares of par value 10 pence became 74,416,547 deferred shares of par value 9 pence plus 74,416,547 new ordinary shares of par value 1 penny.

The holders of the deferred shares shall not be entitled to receive any dividend out of the profits of the Company available for distribution. On a distribution of assets on a winding-up or other return of capital (otherwise than on conversion or redemption or purchase by the Company of any of its shares) the holders of the deferred shares shall be entitled to receive the amount paid up on their shares after distribution (in cash or in specie) to the holders of the new ordinary shares the amount of £100,000,000 in respect of each new ordinary share held by them. The deferred shares shall not entitle their holders to any further or other right of participation in the assets of the Company. The holders of deferred shares shall not be entitled to receive notice of or to attend (either personally or by proxy) any general meeting of the Company or to vote (either personally or by proxy) on any resolution to be proposed. No certificates will be issued in respect of the deferred shares. The diluted loss per share does not differ from the basic loss per share, as these shares are anti-dilutive.

For 2014 and 2013, the diluted loss per share does not differ from the basic loss per share as the exercise of share options would have the effect of reducing the loss per share and is therefore not dilutive under the terms of IAS 33.

NOTES TO THE ACCOUNTS continued

11. INTANGIBLE ASSETS

	Capitalised development costs $'000	Patents $'000	Other intangibles $'000	Total $'000
Cost				
At 1 January 2013	6,556	308	340	7,204
Continuing operations:				
Additions	1,544	24	—	1,568
Disposals	(361)	—	—	(361)
Exchange rate differences	(94)	—	(2)	(96)
Discontinued operation[1] (Note 9):				
Additions	53	—	231	284
At 31 December 2013	7,698	332	569	8,599
Continuing operations:				
Additions	1,623	87	—	1,710
Disposals	(597)	(55)	—	(652)
Exchange rate differences	(149)	—	(3)	(152)
Discontinued operation[1] (Note 9):				
Additions	54	—	54	108
Disposal	(239)	—	(539)	(778)
At 31 December 2014	8,390	364	81	8,835
Amortisation				
At 1 January 2013	4,188	308	116	4,612
Continuing operations:				
Charge for the year (restated)	1,192	—	13	1,205
Disposals	(338)	—	—	(338)
Exchange rate differences	(78)	—	(1)	(79)
Discontinued operation[1] (Note 9):				
Charge for the year	53	—	55	108
At 31 December 2013 - restated	5,017	308	183	5,508
Continuing operations:				
Charge for the year	1,185	14	25	1,224
Disposals	(594)	(55)	—	(649)
Exchange rate differences	(42)	—	(2)	(44)
Discontinued operation[1] (Note 9):				
Charge for year	54	—	85	139
Disposal	(141)	—	(243)	(384)
At 31 December 2014	5,479	267	48	5,794
Net book value				
At 31 December 2012	2,368	—	224	2,592
At 31 December 2013 (restated)	2,681	24	386	3,091
At 31 December 2014	**2,911**	**97**	**33**	**3,041**

[1] Due to the nature and size of the discontinued operation in regards to the intangible assets, the presentation has been separated to identify the continuing operation.

There is no impairment to the intangibles in any of the reported periods.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements $'000	Furniture, fittings and equipment $'000	Total $'000
Cost			
At 1 January 2013	94	863	957
Additions	—	45	45
Disposals	(2)	(39)	(41)
Exchange rate differences	(12)	(92)	(104)
At 31 December 2013	80	777	857
Continuing operations:			
Additions	—	4	4
Disposals[1]	(66)	(434)	(500)
Exchange rate differences	1	(6)	(5)
Discontinued operation (Note 9):			
Charged in the year	—	—	—
Disposals[2]	—	(20)	(20)
At 31 December 2014	**15**	**321**	**336**
Depreciation			
At 1 January 2013	49	769	818
Charged in the year	24	62	86
Disposals	(2)	(37)	(39)
Exchange rate differences	(9)	(86)	(95)
At 31 December 2013	62	708	770
Continuing operations:			
Charged in the year	16	42	58
Disposals[1]	(65)	(434)	(499)
Exchange rate differences	1	(6)	(5)
Discontinued operation (Note 9):			
Charged in the year	—	—	—
Disposals[2]	—	(20)	(20)
At 31 December 2014	**14**	**290**	**304**
Net book value			
At 31 December 2012	45	94	139
At 31 December 2013	18	69	87
At 31 December 2014	**1**	**31**	**32**

1 During the year, the Australian office lease expired and the operation moved into a new, smaller office in West Perth. The result was a significant amount of disposals of all non-relevant assets in addition to leasehold improvements from the previous office that the Australian subsidiaries had occupied since 1999. The net result of the disposals was a loss of under $1,000 recorded in 2014 against other income.

2 As discussed in Note 9, this amount represents the disposals specific to the discontinued operation. No net gain or loss was recorded as the assets were fully depreciated.

All assets listed above are free of any mortgage or charge.

NOTES TO THE ACCOUNTS continued

13. DEFERRED TAX ASSET

	2014 $'000	2013 $'000
Deferred tax asset:		
Opening balance January 1	**1,096**	1,096
Usage in the year by subsidiaries	**(224)**	(104)
Adjustment to the deferred tax asset	**224**	104
Net movement in deferred tax asset	**–**	–
Deferred tax asset – Losses	**1,096**	1,096

Based on management's review of the subsidiaries and the fact that the Australian subsidiary has utilised accrued net operating losses in recent periods for tax purposes, a DTA of $1,096,000 has been maintained in 2014 (2013: $1,096,000) related to recently revised business model forecasts of profitability and anticipated tax loss usage.

14. INVENTORY

	2014 $'000	2013 $'000
Finished goods	**–**	6

The full balance was written-off this year as part of the discontinued Yabazam operation (Note 9). The inventory has been destroyed.

15 TRADE AND OTHER RECEIVABLES

	2014 $'000	2013 $'000
Trade receivables	**–**	59
Unbilled receivables	**484**	328
Prepayments	**53**	88
Other receivables	**34**	31
	571	506

The whole of the trade receivables amount was invoiced in US dollars.

100% of the trade receivables relate to the US subsidiary. The unbilled receivables represent revenue accrued based on royalty reports for the fourth quarter. The fourth quarter royalty reports are received and invoiced in January of the following year.

The following financial assets are overdue for receipt. The fair value of receivables is not materially different from the carrying value shown. The Group's receivables are unsecured.

	2014 $'000	2013 $'000
Overdue trade receivables		
Not more than 3 months	**–**	59
More than 3 months but not more than 6 months	**–**	–
More than 6 months but not more than 1 year	**–**	–
	–	59

Receivables which are past due are not deemed to be impaired as they are with customers with positive creditworthiness.

16. FINANCIAL INSTRUMENTS

Risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern whilst maximising the return to stakeholders through the effective management of capital raised through share issues and convertible debt. The Board's financial risk management objective is to maximise financial assets and to minimise financial liabilities whilst not engaging in speculation. The Board regularly reviews the policies for managing financial risk and assesses if any additional changes should be made. The most significant risk arising from the Group's financial instruments is foreign currency risk.

Categories of financial instrument

	2014 $'000	2013 $'000
Financial assets:		
Loans and receivables	**—**	59
Prepayments and other receivables	**571**	447
	571	506
Restricted cash[1]	**72**	—
Cash and cash equivalents	**697**	2,661
Total financial assets:	**1,340**	3,167
Financial liabilities:		
Current		
Trade payables at amortised cost	**56**	148
Other accrued liabilities	**601**	519
	657	667
Non-Current		
Convertible Unsecured Loan Notes (Note 17)	**912**	—
Total financial liabilities	**1,569**	667

[1] On 1 November 2014, Dynamic Digital Depth Australia Pty Ltd entered into a three year lease agreement with a third party for office space. As part of this agreement, a deposit of $72,000 (AUD 88,000) was made into a restricted cash 12 month term deposit account as security for the agreement. The term deposit renews annually and earns a net interest rate of 0.5% for the first year (3.5% net of the issuance fee of 3.0%).

Foreign currency risk

The cash balances carried within the Group comprise the following currency holdings:

	2014 $'000	2013 $'000
Pounds Sterling	**163**	1,332
US dollars	**501**	1,037
Australian dollars	**33**	292
	697	2,661

The presentational currency of the Group is US dollars, while the functional currency of the parent Company is Pounds Sterling. As a result of its activities in North America and Asia Pacific, the Group is mainly exposed to fluctuations in both the Australian dollar and Sterling against the US dollar. The Group's philosophy with respect to foreign currency risk is to hold its cash and any short-term deposits that may be made from time to time, in the currencies of anticipated expenditure. The exposure is thus minimised and considered to be insignificant.

The sensitivity analysis below has been based on the exposure to exchange rates for non-derivative instruments at the reporting date. A 10% increase or decrease is used when reporting exchange rate risk internally to key management personnel and represents management's assessment of the reasonable possible change in exchange rates when considered against the background of exchange rate movement for the US dollar in 2013/14.

NOTES TO THE ACCOUNTS continued

With a 10% movement of the US dollar against the Australian dollar and with all other variables constant, the Group's loss for the year ended 31 December 2014 would move by $25,000 (2013: $3,000), and the movement in shareholder's equity would have been $ nil for both 2014 and 2013. With a 10% movement of the US dollar against Sterling and with all other variables constant, the Group's loss for the year ended 31 December 2014 would move by $82,000 (2013: $95,000), and the movement in shareholders' equity given that the functional currency is sterling would have been $4,430,000 (2013: $4,512,000).

With both currencies, there would be a corresponding decrease in equity, which is mainly attributable to the Group's exposure to exchange rates on its trade receivables and cash balances.

Interest rate risk
The Group has historically financed its operations through equity fundraising. The cash balances are held at floating interest rates based on LIBOR and determined by its banking institutions as follows:

	Interest rate %	**2014 $'000**	Interest rate %	2013 $'000
Cash and balances with central banks	**0% to 3.5%**	**769**	0% to 3.0%	2,661
Restricted cash	**3.5%**	**(72)**		—
Cash at bank available for use	**0% to 2.5%**	**697**	0% to 3.0%	2,661

The Group and operating entities had no committed borrowing facilities at 31 December 2014 (2013: nil).

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. In order to minimise this risk, the Group endeavours only to deal with companies that are demonstrably creditworthy and this, together with the aggregate financial exposure, is continuously monitored. The maximum exposure to credit risk is the value of the outstanding balance under the contract, whether billed or not as of the date of these statements, amounting to $484,000 (2013: $387,000). The institutions where bank deposits are held are all considered to be low risk having ratings by Moody's of A2 or better.

Where the Group provides consultancy services, it normally receives staged payments for development work resulting in trade receivables that management consider to be of low risk. Although there is a significant concentration of receivables with the Group's largest customer, the customer is a profitable global consumer OEM with strong commercial credit and solid payment practices.

Liquidity risk
The Group currently holds cash balances in Pounds Sterling, US dollars and Australian dollars to provide funding for operations and continued development work. The Group is dependent on income from commercial contracts and, to a decreasing extent, equity fundraising and Management expects to continue this method successfully in the future.

The liquidity risk is monitored by Management under the supervision of the Board. The Group and operating entities maintain adequate reserves by monitoring actual cash flows semi-monthly within the framework of liquidity risk management for short, medium and long-term funding and liquidity requirements. Beginning in June 2014, the Board recognised that the cash reserves may not be sufficient and a series of fundraising initiatives were established. In July 2014, convertible unsecured loan notes were issued (Note 17) and in March 2015 (post-year end) additional loan notes were issued and an equity placing was completed (Note 26).

There is no material difference between the fair values and the book values of these financial instruments.

Capital risk management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other members. The Group has used a combination of convertible loan notes and an equity placing to provide the additional financing necessary for the ongoing liquidity of the Group while it transitions into the new markets described in the Strategic Report. The Group seeks to minimise the cost of capital and attempts to optimise the capital structure. Currently no dividends are paid to shareholders and share issues yield capital for further development of the Group's products.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to the parent, comprising share capital, reserves and retained earnings as disclosed in Note 22. The Chief Financial Officer regularly monitors the capital risk on behalf of the board.

17. CONVERTIBLE LOAN DEBT

	2014 $'000	2013 $'000
Value of Notes on issuance	**906**	–
CTA – unrealized FX movement during the year	**(80)**	–
Finance charges during the year	**86**	–
Financial liability element of Note	**912**	–

On 30 July 2014, the Company issued Convertible Unsecured Loan Notes ("2014 Notes") totalling £535,000 ($906,000 at historical exchange rate) to certain Directors of the Group and to Arisawa Manufacturing Company, pursuant to the existing authorities granted to the board of Directors. The 2014 Notes can be converted by the holders into ordinary shares of 1 pence each in the capital of the Company ("Shares") at a conversion price of 10 pence nominal amount of 2014 Notes per Share. The Company has the option to redeem the 2014 Notes at any time at a 5% premium to their nominal value plus accrued interest. Any 2014 Notes outstanding on 30 January 2016 will, at the option of the Company, be repaid in cash or settled by the issue of Shares at the conversion price; in both cases accrued interest will be payable in cash.

The 2014 Notes have an annual interest rate of 7%. Interest payments are made semi-annually on 28 June and 28 December of each year.

The 2014 Notes have conversion rights to equity and mature in January 30, 2016 (18 months from the date of issue). As such they are treated as compound instruments. The valuation of the liability is achieved by discounting the maturity value of the note at the rate available to the Group on a simple loan. Given the Group had no pre-existing debt (or simple loans), an estimated rate of 9% was used for this calculation. The residual value is the equity element of the instrument. The present value of the convertible note's equity element is considered an immaterial amount at the time of the establishment of the loan and therefore the financial liability element is $912,000 (£587,000). The change in the valuation in the denominated currency is charged to the consolidated statement of comprehensive income as finance charges (Note 4).

18. DEFERRED TAX LIABILITY

	2014 $'000	2013 $'000
1 January	**619**	543
Temporary differences arising from capitalised development costs	**187**	296
Change in enacted income tax rate on previously recognised deferred tax liability arising from capitalised development costs	**(224)**	(220)
31 December	**582**	619

The deferred tax liability arises from the internally generated intangibles for capitalised development costs.

NOTES TO THE ACCOUNTS continued

19. TRADE AND OTHER PAYABLES

	2014 $'000	2013 $'000
Current liabilities		
Trade payables	**56**	148
Accrued expenses	**861**	779
	917	927

The accrued expenses include $260,000 (2013: $260,000) in prepaid license fees and advance royalty payments from licensees.

The Group's payables are unsecured, none are past due and the Directors consider that the carrying value approximates their fair value.

20. OPERATING LEASE COMMITMENTS

	2014 $'000	2013 $'000
The following payments are due to be made on operating lease commitments for land and buildings:		
Within one year	**257**	365
Two to five years	**156**	201
	413	566

The two operating entities in the US and Australia are obligated to short-term lease agreements for office space.

The prior Australian office lease expired in October 2014 and the Group moved to a new office in West Perth and signed a 3 year lease which is secured by a restricted cash deposit account in the amount of $72,000 (AUD 88,000).

The US office lease began in January 2011 and expires in January 2016 and is secured by a prepaid security deposit held by the landlord of $29,000.

The operating lease commitments represent the base rent payments that these entities are obligated to make for the remaining terms of the current lease agreements.

21. SHARE BASED PAYMENTS

Unapproved (Non Tax Advantaged) current scheme

The Group has an unapproved share option plan for the benefit of Directors, officers and employees that allows for the granting of up to 10% of the ordinary shares in issue. The following table identifies the grants by grant dates that remain outstanding as of 31 December 2014:

Issue Date	Options in issue	Exercise Price (pence)	Expiry Date:
8 October 2010	200,000	17.90	7 October 2015
5 January 2011	930,000	16.90	4 January 2016
5 January 2011[1]	2,760,000	17.50	4 January 2016
15 June 2011	250,000	34.75	14 June 2016
14 February 2012[1]	2,320,000	27.25	13 February 2017
12 June 2012	50,000	26.00	11 June 2017
9 July 2012[1]	600,000	25.00	8 July 2017

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	2014 WAEP		2013 WAEP	
	Number	**p**	Number	p
Outstanding at the beginning of the year	**7,343,333**	**21.8**	9,980,000	19.0
Granted during the year	**—**	**—**	—	—
Exercised during the year	**—**	**—**	(1,995,000)	10.5
Lapsed/expired during the year	**(125,000)**	**13.9**	—	—
Forfeited during the year	**(108,333)**	**20.8**	(641,667)	13.9
Outstanding at the year end	**7,110,000**	**21.9**	7,343,333	21.8
Exercisable at the year end	**6,120,000**	**21.1**	4,050,000	19.3

The fair value of options granted by the Company has been arrived at using the Black-Scholes model. The assumptions inherent in the use of this model are as follows:

- The option life is assumed to be at the end of the allowed period;
- Historical staff turnover is taken into account when determining the proportion of granted options that are likely to vest by the end of the period;
- Following the application of the vesting probability assumptions, there are no further vesting conditions other than remaining in employment with the Company during the vesting period;
- No variables change during the life of the option (e.g. dividend yield); and
- Volatility has been calculated over the 5 years prior to the reporting date.

Date of grant	Vesting period (yrs)	Date fully vested	Exercise price (pence)	Risk-free rate	Share price at grant (pence)	Volatility of share price	Fair value (pence)	Number outstanding
9 July 12[1]	3	9 July 15	25.0	1.75%	25.00	112%	19.96	600,000
12 Jun 12	3	12 Jun 15	26.0	1.75%	27.25	111%	20.67	50,000
14 Feb12[1]	3	14 Feb 15	27.25	1.75%	27.25	111%	21.65	2,320,000
15 Jun 11	2	15 Jun 13	34.75	1.87%	34.75	110%	27.50	250,000
5 Jan 11[1]	3	5 Jan 14	17.5	2.75%	17.50	111%	14.06	2,760,000
5 Jan 11	3	5 Jan 14	16.9	2.75%	17.50	111%	13.52	930,000
8 Oct 10	3	8 Oct 13	17.9	2.75%	17.32	112%	13.86	200,000

The Group recognised total expenses of $148,000 (2013: $426,000) related to equity-settled share based payment transactions during the year.

[1] The final grant and exercise dates may vary due to the applicable local tax regulations under which the shares are granted. Australian share plan rules require an offer and acceptance of the grant. As a result, the official grant date may be up to 60 days after this date under local law for Australian recipients.

NOTES TO THE ACCOUNTS continued

22. ISSUED SHARE CAPITAL

The issued share capital of the Group is issued by the parent Company in Pounds Sterling. The attached parent Company accounts provide the currency of issue reconciliation of the share capital. For the Group accounts, the shares outstanding at the end of the period are converted to US Dollars using the closing spot rate while the transactions during the period are converted using the average rate for the period. The resulting difference is a foreign exchange adjustment on the balance translation.

	Shares	Nominal value $'000	Premium net of costs $'000	Total $'000
Deferred shares (par 9p)				
In issue 1 January 2013	74,416,547	10,829	—	10,829
Foreign exchange adjustment	—	217	—	217
31 December 2013	74,416,547	11,046	—	11,046
Foreign exchange adjustment	—	(641)	—	(641)
31 December 2014	74,416,547	10,405	—	10,405
Ordinary shares (par 1p)				
In issue 1 January 2013	134,628,812	2,176	17,069	19,245
Issued option exercises[1]	1,995,000	33	311	344
Share placing[2]	7,039,760	116	821	937
Foreign exchange adjustment	—	43	342	385
In issue 31 December 2013	143,663,572	2,368	18,543	20,911
Foreign exchange adjustment	—	(137)	(1,076)	(1,213)
In issue 31 December 2014	143,663,572	2,231	17,467	19,698
All shares				
In issue 31 December 2014	218,080,119	12,636	17,467	30,103
In issue 31 December 2013	218,080,119	13,414	18,543	31,957

Key Movements in the Share Capital and Share Premium accounts are as follows:

1 In 2013, ordinary shares were issued under the Company's Share Option Plan.

2 On 17 September 2013, the Company raised £575,500 before expenses through a placing of 7,039,760 ordinary shares of 1 penny each in the capital of the Company at a placing price of 8.175 pence per share. InterDigital made this strategic investment at the same time as entering into a joint technology development agreement with DDD.

Deferred Shares (par 9p)

A description of and relevant rights attached to the deferred shares as of the date of this report are as set out in Note10 of the consolidated Group financial statements.

Ordinary shares (par 1p)

The rights attaching to the ordinary shares are governed by the Company's Articles of Association and prevailing legislation. There are no specific restrictions on the size of a holding. Subject to any rights or restrictions attached to any ordinary shares, on a show of hands, every shareholder present in person or by proxy (or being a corporation present by a duly authorised representative) has one vote, and on a poll every shareholder who is present in person or by proxy has one vote for every ordinary share held by the shareholder. Unless the Board otherwise determines, no shareholder shall be entitled to vote at any general meeting or class meeting in respect of any ordinary shares held by him if any call or other sum then payable by him in respect of that share remain unpaid. Currently, all issued ordinary shares are fully paid. In addition, unless the Board otherwise determines, no member shall be entitled to vote if he failed to provide the Company with information concerning interests in those ordinary shares required to be provided under the Companies Act 2006. Votes are exercisable at general meetings of the Company. The notice of a general meeting will specify the deadline for appointing a proxy or proxies to vote in relation to resolutions to be passed at that meeting.

The transfer of ordinary shares is governed by the general provisions of the Company's Articles of Association and prevailing legislation. Save as described herein, there are no restrictions on the transfer of the ordinary shares other than (i) as set out in the Articles of Association; (ii) certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws); and (iii) the Company's share dealing rules which require certain Directors, officers and employees of the Company to obtain approval prior to dealing in ordinary shares. The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a share (or renunciation of a renounceable letter of allotment) save for in certain circumstances specified in the Articles of Association. Registration of a transfer of an uncertificated share may be refused in circumstances permitted or required by the Uncertificated Securities Regulations (as defined in the Company's Articles of Association).

Merger reserve
The Merger Reserve arose in the Group reconstruction in January 2002 prior to its flotation.

Share based payment reserve
The Share Base Payment Reserve comprises the carrying value of the recognised expense under IFRS2 for share options granted that are still exercisable. When options are exercised, forfeited or expire, a reserve transfer is performed in order to move the expense into Retained Earnings.

Translation reserve
The Translation Reserve reflects the exchange differences from retranslation of the opening net investments in overseas subsidiaries to the closing rate and translation of the results for the year from average rates to the closing rate and translation into presentational currency of the equity balances of the parent company.

23. CONTINGENT LIABILITIES

The Group had no contingent liabilities at 31 December 2014 or 31 December 2013.

24. CAPITAL COMMITMENTS

The Group had no capital commitments at 31 December 2014 or 31 December 2013.

25. RELATED PARTY TRANSACTIONS

(1) Commercial transactions
Arisawa Manufacturing Co. is a related party as it is a significant shareholder and its CEO, Dr. Sanji Arisawa, is a member of the Company's Board of Directors. During the year, the Group licensed 3D technology valued at \$12,000 (2013: \$14,000) to Arisawa Co. The abovementioned transactions took place on an arm's-length basis.

(2) Financial
The following Director stock transaction occurred during the period:

On 19 May 2014, Miss Victoria Stull, Chief Financial Officer and Executive Director of the Company, purchased 125,000 ordinary 1p shares of the Company at an average purchase price of 4.5p per share. The transaction increased Miss Stull's net holdings to 251,000 or 0.2%.

The Convertible Unsecured Loan Notes described in Note 17 are related party transactions given that all parties are Directors or key shareholders. At the time of the transaction, the non-participating Directors of the Company consulted with the Company's nominated adviser that the terms of the transaction were fair and reasonable insofar as the shareholders are concerned. The table below summarises the related party participation and relevant interest payment made during 2014.

Participant	Note value contributed	2014 Interest paid	Potential conversion Shares (10p/share)
Arisawa Manufacturing Co. Ltd.	£ 420,000	£ 12,082	4,200,000
Hans Snook affiliate	50,000	1,438	500,000
Nicholas Brigstocke	25,000	719	250,000
Christopher Yewdall	20,000	575	200,000
Dr. Sanji Arisawa	20,000	575	200,000
Total	£ 535,000	£ 15,389	5,350,000
USD Value at 12/31/2014	$ 831,000	$ 24,000	

Details of all transactions can be found in the relevant regulatory news release available at www.ddd.com.

NOTES TO THE ACCOUNTS continued

26. EVENTS AFTER THE BALANCE SHEET DATE

Financial:

On 9 March 2015, the Company announced that it had entered into agreements to issue £350,000 of Convertible Unsecured Loan Notes ("2015 Notes") pursuant to the existing authorities of the Board. The Company also announced a proposed placing of, in aggregate, 23,750,000 new ordinary shares of 1 pence each at a placing price of 2 pence per share (total £475,000) conditional on the passing by shareholders of a resolution to authorise the Company to allot additional ordinary shares and dis-apply statutory pre-emption rights at the Company's General Meeting to be held on 31 March 2015.

The 2015 Notes are more fully described in the announcement but are similar in form to the 2014 Notes described in Note 17. The 2015 Notes have a 24 month life (due March 2017), pay semi-annual interest at 7% and have similar conversion terms as the 2014 Notes, however, the conversion price is 5 pence per ordinary share. The 2015 Notes were subscribed for by four of the Directors and the largest shareholder, all of which are related parties.

On 31 March 2015, the shareholders approved the necessary resolution to complete the placing at a General Meeting. 22,500,000 shares were admitted on 1 April for £450,000.

The Group's published regulatory announcements can be found on the Group's website at http://www.ddd.com/investors/rns-announcements/.

27. CONSOLIDATION

The subsidiaries included in the consolidated accounts are listed in Note 3 of the parent Company accounts.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DDD GROUP PLC

We have audited the parent Company financial statements of DDD Group plc for the year ended 31 December 2014 which comprise the parent Company balance sheet, the statement of total recognised gains and losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor
As explained more fully in the Statement of Directors' Responsibilities set out on page 22, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on financial statements
In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - going concern
In forming our opinion on the parent Company financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 1 to the parent Company financial statements concerning the Company's ability to continue as a going concern.

The Company incurred a net loss of £7,016,000 during the year ended 31 December 2014.

As explained in Note 1 to the parent Company financial statements, the Directors have prepared cash flow forecasts up to 31 December 2018. Forecast revenue includes existing contracts and new revenue streams arising from contracts which are in the negotiation phase; however, there is uncertainty that contract negotiations will be finalised.

These conditions, along with the other matters explained in Note 1 to the parent Company financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The parent Company financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the Group financial statements of DDD Group plc for the year ended 31 December 2014. That report includes an emphasis of matter.

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
7 May 2015

PARENT COMPANY BALANCE SHEET

	Notes	31 December 2014 £'000	31 December 2013 £'000
Fixed Assets			
Investments	3	**12,970**	12,208
Current Assets			
Debtors (£10,398,000 falling due after one year; 2013: £16,791,000)	4	**10,409**	16,816
Cash at bank and at hand		**105**	808
		10,514	17,624
Creditors - amounts falling due within one year	5	**(97)**	(105)
Net Current Assets		**10,417**	17,519
Creditors - amounts falling due after one year	6	**(587)**	—
Net Assets		**22,800**	29,727
Capital and Reserves			
Called up share capital	7	**8,134**	8,134
Share premium account	9	**11,244**	11,244
Share based payment reserves	9	**1,190**	1,129
Other reserves	9	**18,843**	18,843
Profit and loss account	9	**(16,611)**	(9,623)
Shareholders' Funds		**22,800**	29,727

The financial statements were approved by the board of Directors on 7 May 2015 and signed on its behalf by:

Christopher Yewdall
Chief Executive Officer
Company number: 04271085

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	31 December 2014 £'000	31 December 2013 £'000
Loss for the financial year from operations	**(1,016)**	(2,483)
Impairment provision	**(6,000)**	—
Total recognised gains and losses relating to the year	**(7,016)**	(2,483)

NOTES TO PARENT COMPANY ACCOUNTS

1. ACCOUNTING POLICIES

Accounting convention
The financial statements were prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) up to and including Financial Reporting Standard (FRS) 28. A summary of the more important accounting policies, which have been applied consistently, is set out below. The principal accounting policies represent the most appropriate in accordance with FRS 18.

Additionally, the consolidated Group prepares accounts under IFRS which should be read in conjunction with these statements.

Going Concern Review:
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 11.

The recently completed financing (announced 9 March 2015 and completed 1 April 2015) provides sufficient working capital through to the end of 2015 with modest revenue assumptions from new products. The Directors have prepared cash flow forecasts up to 31 December 2018 under various scenarios based on performance assumptions for the 2D and 3D business units which indicate the Company will have access to sufficient cash. The revenue forecast includes assumptions regarding existing contracts and new revenue streams arising from contracts which are in the negotiation phase; however, there is uncertainty that contract negotiations will be finalised.

If there are material adverse variances against these forecasts, the Company is able to institute measures to take mitigating actions to manage cash resources and access additional funding from strategic sources if required.

The Directors have concluded that the combination of these circumstances represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Nevertheless after making enquiries, the Directors have a reasonable expectation that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Key Accounting Policies:

Investments
Investments held as fixed assets are stated at the lower of cost and net realisable value, less provision for any impairment. In the opinion of the Directors, the value of such investments is not less than that shown at the balance sheet date.

Deferred tax
Deferred tax is recognised on all timing differences where the transactions or events that give the parent Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Share based payments
All share based payment arrangements currently granted are recognised in the financial statements. All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share based payments, the fair values of their services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (e.g. profitability and sales growth targets).

All equity settled share based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to 'share based payment reserves'.

Upon exercise of share options, the proceeds received, net of attributable transaction costs, are credited to share capital and, where appropriate, share premium.

Other reserves
The Company received a distribution from Dynamic Digital Depth Inc., on the liquidation of this intermediary holding company, of the intercompany receivables held by Dynamic Digital Depth Inc. The receipt was treated as an unrealised capital receipt for taxation purposes on which basis no taxation was payable or has been provided for in these financial statements.

Foreign exchange
Non-Sterling based asset and/or liability balances for the balance sheet presented are translated at the closing rate at the date of the balance sheet and the resulting foreign exchange gain/loss is presented as part of the profit and loss account.

2. COMPANY PROFIT AND LOSS ACCOUNT

The parent Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent Company's recognised loss for the year ended 31 December 2014 was £7,016,000 which included a £6,000,000 impairment provision for the investment in subsidiaries and loans due from subsidiaries (2013: loss of £2,483,000).

3. FIXED ASSET INVESTMENTS

	31 December 2014 £000	31 December 2013 £000
Investment in subsidiary undertakings		
Cost		
Historical cost	**12,208**	11,977
Additions	**762**	231
Net book value	**12,970**	12,208

The Company tests the carrying value of its investments in subsidiary undertakings, which are carried at historical cost less impairment, and the related long term notes receivable from subsidiaries (Note 4) on an annual basis or more frequently if market conditions indicate a potential impairment.

Given that the market capitalisation of the Group is below the carrying balance of the investment in subsidiary undertakings and long term notes receivable from subsidiaries and also Shareholders' Funds, the Company carefully assessed the carrying value utilising the discounted cash flow forecasts of the Group under two varying scenarios (expected and conservative cases). Both scenarios include analysis of the existing 3D business as well as new business areas arising from the latest technologies described in the Strategic Report which will expand the market reach into the 2D consumer marketplace. It is also anticipated that licensing revenues may come from the IP assertion program described in the Strategic Report, however given the uncertainty of timing and collection, it is excluded from these assumptions. The timing and quantum of revenues, profit and cash flows from both of the new business areas are inherently less certain than those from the existing business. Management have based their assessment of cash flows on the best available information and they will revisit the key underlying assumptions, estimates and judgements at each reporting date.

The models underlying the discounted cash flow analysis were approved by Management in April 2015. These cash flows have been discounted at a risk adjusted pre-tax weighted average cost of capital of 9.7% with a 3% terminal growth rate following the detailed two year period (2015-2016). The resulting valuations, including new business assumptions, support current carrying values and therefore no impairment of the investment in subsidiary balance is made at this time.

NOTES TO PARENT COMPANY ACCOUNTS continued

Interest in subsidiary undertakings

Name of undertaking	Class of shares	Percentage held (%)	Country of incorporation	Activities
In operation at year end:				
Dynamic Digital Depth USA, Inc. (DDD USA Inc.)	Ordinary	100	US	Corporate headquarters, primary sales and marketing office for 3D
GenMe, Inc.	Ordinary	100	US	Primary sales and marketing for 2D products, activity beginning in 2015
Dynamic Digital Depth Australia Pty. Ltd (DDD Australia)	Ordinary	100	Australia	Product support and administration
Dynamic Digital Depth Research Pty. Ltd (DDD Research)	Ordinary	100	Australia	Software and hardware development and research
DDD IP Ventures Ltd.	Ordinary	100	British Virgin Islands	Intellectual property administration

The Board continues to have a reasonable expectation that the operating entities in which the parent company has made investments will achieve profitability in the foreseeable future sufficient enough to support the carrying value of the investment.

4. DEBTORS

	2014 £000	2013 £000
Amounts falling due within one year		
Prepayments	**11**	25
	11	25
Amounts falling due after one year		
Long-term notes receivable from subsidiaries		
DDD USA Inc.	**11,012**	11,276
DDD Australia	**3,394**	3,476
DDD Research	**1,992**	2,039
Impairment provision	**(6,000)**	—
	10,398	16,791
Total Debtors balance	**10,409**	16,816

The loans of the predecessor parent company (Dynamic Digital Depth Inc. "DDD Inc.") that were receivable from the subsidiaries were assigned to DDD Group plc as a result of the Group's vertical merger of its Canadian subsidiary, DDD Inc., on 7 September 2012. These loans are denominated in Canadian dollars and retranslated to Pounds Sterling at each reporting date. These loans are non-interest bearing and payable upon request. There were no payments made in the period, the balance change is purely a result of foreign exchange fluctuations. A thorough review of the capability of the subsidiaries to repay the debt was conducted. Although the Directors believe the full amount is recoverable over time, it has been determined to be prudent to establish an impairment provision reserve for £6,000,000 due to the uncertainty of several aspects of the business in the near term.

5. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £000	2013 £000
Trade creditors	**10**	54
Accruals	**87**	51
	97	105

6. CONVERTIBLE LOAN NOTES (DUE JAN 2016)

	2014 £000	2013 £000
Financial liability element of loan notes	**587**	–

On 28 July 2014, the Company issued unsecured Convertible Loan Notes ("Notes") totalling £535,000 to certain Directors of the Group and to Arisawa Manufacturing, pursuant to the existing authorities granted to the board of Directors. The Notes have an annual interest rate of 7%. The Notes can be converted by the holders into ordinary shares of 1 pence each in the capital of the Company ("Shares") at a conversion price of 10 pence nominal amount of Notes per Share. The Company has the option to redeem the Notes at any time at a 5% premium to their nominal value plus accrued interest. Any Notes outstanding on 30 January 2016 will at the option of the Company be repaid in cash or settled by the issue of Shares at the conversion price; in both cases accrued interest will be payable in cash.

The loan notes have conversion rights to equity and mature on 30 January 2016 (18 months from the date of issue). As such they are treated as compound instruments. The valuation of the liability is achieved by discounting the maturity value of the note at the rate available to the Group on a simple loan. The residual value is the equity element of the instrument. The present value of the convertible note's equity element is considered an immaterial amount at the time of the establishment of the loan and therefore the financial liability element is £587,000. The change in the valuation is charged to the consolidated statement of comprehensive income as finance charges. Included in the valuation of the financial liability is an element of derivative value for the ability to settle the liability early as described by the Loan Note schedule.

7. SHARE CAPITAL

	Shares	Nominal value £'000	Premium net of costs £'000	Total £'000
Deferred shares (par 9p)				
In issue 1 January & 31 December 2013 and 31 December 2014	74,416,547	6,698	–	6,698
Ordinary shares (par 1p)				
In issue 1 January 2013	134,628,812	1,346	10,557	11,903
Issued option exercises[1]	1,995,000	20	189	209
Share placing[2]	7,039,760	70	498	568
In issue 31 December 2013 and 2014	143,663,572	1,436	11,244	12,680
All shares				
In issue 31 December 2013 and 2014	218,080,119	8,134	11,244	19,378

Key Movements in the Share Capital and Share Premium accounts are as follows:

1 In 2013, ordinary shares were issued under the Company's Share Option Plan.

2 On 17 September 2013, the Company raised £575,500 before expenses through a placing of 7,039,760 ordinary shares of 1 penny each in the capital of the Company at a placing price of 8.175 pence per share. InterDigital made this strategic investment at the same time as entering into a joint technology development agreement with DDD.

Deferred shares (par 9p)
A description of and relevant rights attached to the deferred shares as of the date of this report are as set out in Note 10 of the consolidated Group financial statements.

Ordinary shares (par 1p)
A description of and relevant rights attached to the ordinary shares as of the date of this report are as set out in Note 22 of the consolidated Group financial statements.

NOTES TO PARENT COMPANY ACCOUNTS continued

8. SHARE BASED PAYMENTS

Refer to Note 21 in the Group accounts. Share based payments recognised in the parent Company accounts relate to share options granted to any Director of the parent Company and any employee of the Company's subsidiaries.

The parent Company recognised total expenses of £89,000 (2013: £272,000) related to equity-settled share based payment transactions during the year.

9. STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital account £000	Share premium account £000	Share based payment reserve £000	Other Reserve £000	Profit and loss account £000	Total £000
At 1 January 2013	**8,044**	**10,557**	**937**	**18,843**	**(7,221)**	**31,160**
Loss for the year	—	—	—	—	(2,483)	(2,483)
Share based payments – share options	—	—	273	—	—	273
Share based payment reserve transfer	—	—	(81)	—	81	—
Share issues	90	687	—	—	—	777
At 31 December 2013	**8,134**	**11,244**	**1,129**	**18,843**	**(9,623)**	**29,727**
Loss for the year	—	—	—	—	(7,016)	(7,016)
Share based payments – share options	—	—	89	—	—	89
Share based payment reserve transfer	—	—	(28)	—	28	—
At 31 December 2014	**8,134**	**11,244**	**1,190**	**18,843**	**(16,611)**	**22,800**

10. DIRECTORS' REMUNERATION

	2014 £'000	2013 £'000
Wages and salaries	**165**	185
Social Security contributions	**9**	16
Share based payments – share options	**57**	162
	231	363

The amounts above are the total earned director fees during the period. As noted in the Remuneration report on page 24 of the Annual Report, the Directors agreed to defer a portion of their director fee compensation in 2014 until such time as the Group exceeds the financing models. Total deferred director fees are £36,000 during the period prior to 31 December 2014 (2013: nil).

Share based payments recognised in this note are solely share option expense related to any executive or non-executive directors of the parent Company and are a subset of the total share based payment expense referenced in Note 8 above with additional detail in Note 20 of the Group accounts. All Group director fees are paid by the parent Company.

11. POST BALANCE SHEET EVENTS

Please refer to Note 26 in the Group accounts.

12. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemptions available under Financial Reporting Standard 8, "Related Party Disclosures", not to disclose transactions with its parent and fellow subsidiary undertakings.

Please refer to Note 25 in the Group accounts for all external transactions.

COMPANY INFORMATION
For the year ended 31 December 2014

SHARE CAPITAL:
The total number of shares issued and outstanding as at 31 December:

Ordinary 1p	143,663,572
Deferred 9p	74,416,547
Total	218,080,119

STOCK SYMBOL:
DDD Group plc is listed on the AIM Market of the London Stock Exchange (AIM: DDD)

DDD Group plc also has a Level I ADR program of the UK AIM-listed ordinary shares listed on the OTCQX Market in the US (OTCQX: DDDGY)

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