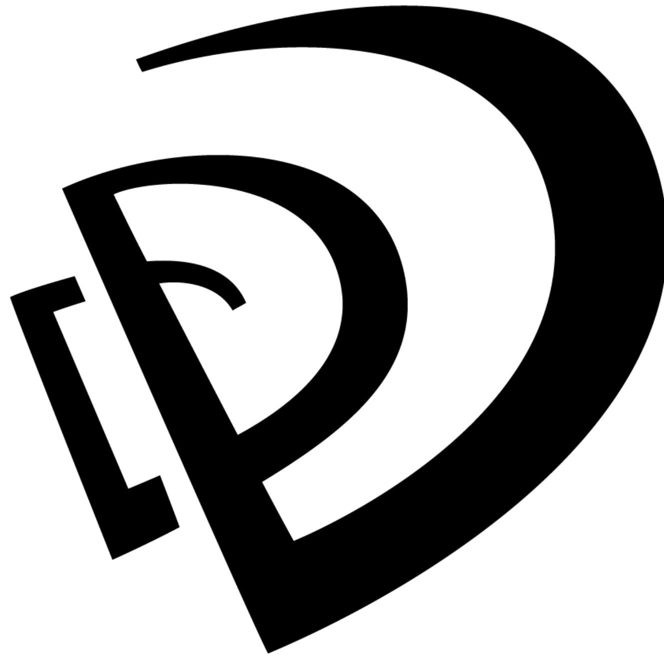

Annual Report and
Financial statements for the year
ended 31 December 2016

DDD GROUP PLC

Registered Number: 04271085

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Mission Statement

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

The Directors present their Strategic Report on the affairs of DDD Group plc and its subsidiary companies (the "Group") together with the Directors' Report, Financial Statements and Auditor's Reports for the year ended 31 December 2016.

Chairman's Statement

Dear Shareholder,

Your company has made good progress in 2016 by signing contracts with multiple new distribution partners for the innovative new TriDef SmartCam app. The financial benefits of these new licences have begun to come through in the first quarter of 2017 and are expected to show significant growth throughout this year. We also look forward to signing up more new affiliate distribution partners over the coming months to further accelerate the growth in revenues.

It is now almost two years since the Group initiated patent infringement litigation against LG Electronics relating to the 2D to 3D conversion process in LG's range of 3D TVs that have been sold in the US. Solid progress has been made during the year and a trial date is now set for mid-May, 2018.

Although we continued to receive revenues from the royalties for 3D TV and other 3D consumer products, they were at a very much reduced level and concentrated in the first half of the year (total revenues of $379,000 in 2016 compared to $706,000 in 2015) as a result of the phasing out of the 3D feature by most TV manufacturers as they introduced their 2017 model year TVs.

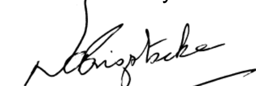
Management continued to exercise very stringent control over costs and this resulted in administration expenses decreasing year on year by a further 13.5%. As DDD continues to operate at close to 100% gross margins the result is that the revenue of $379,000 equates to a gross profit of approximately the same amount at $373,000.

Cash flow is also very closely monitored and the Group benefitted from the support of its largest shareholder, Arisawa Manufacturing Company, through the issuance of $2,050,000 of secured debt during the year. Subsequent to the year-end DDD entered into another secured loan agreement for a line of credit of up to $750,000 with Arisawa Manufacturing and the Group is indeed fortunate to enjoy tremendously strong support from its largest shareholder. In addition, we also raised $270,000 from a placing of new equity.

I remain extremely grateful for the efforts and hard work of the executive management team and the highly skilled people employed by the Group in Los Angeles and Perth, Australia. It is their continued efforts that give me the optimism to believe that 2017 will see the rewards from their endeavours and bring better results for shareholders.

I also wish to thank my fellow Directors for all their valuable input over this last year. In particular, I should like to mention Hans Snook who has served as a Director for the last 11 years and has expressed a wish not to seek re-election at the AGM this June. His experience and expertise has proved invaluable in steering the company through both good and some difficult times and we are all hugely grateful for the wise council he has so often provided.

Yours sincerely



Nicholas Brigstocke, Chairman
DDD Group plc

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW:

DDD Group is a leading developer and licensor of intellectual property in the advanced imaging market for consumer entertainment products. Today the Group delivers innovative ‘intelligent video’ software solutions for the video chat/conferencing, gamecasting/webcasting and social photography markets. 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 such as live or recorded video game feeds or ‘selfie’ photographs without the requirement for additional green screen systems or infra-red depth sensors enabling a new generation of Mixed and Augmented Reality experiences. The software products are designed for the personal computer and mobile device markets and are delivered as Windows, OS X, Android and iOS downloadable apps.

The Group creates affiliate licenses with PC and PC peripheral manufacturers as well as PC software developers and publishers in the target markets through which the Group’s software is marketed by the affiliate to their end users. End users can either download the Group’s software apps online or in some cases, the software is pre-installed on the new PC or notebook during manufacture. The Group shares part of the license fee paid by the end users to purchase the Group’s software with the affiliate. In the mobile/tablet market, the Group publishes its software in app stores such as the Google Play Store and the Apple App store and the app store operator collects a percentage of license fees and in-app purchases paid by end users of the app with the balance being paid to the Group by the app store operator. Today the Group’s 3D technologies are used to enable existing 2D PC video games to be played in 3D on the new generation of Virtual Reality headsets that are gaining adoption worldwide.

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. 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: real time identification of an end user’s image from their 2D webcam for video conferencing, digital photography and social media applications; and automatic 2D to 3D conversion for consumer 3D products. 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.

	2016	2015
3D technologies:		
New/renewal 3D license agreements signed in the year	**1**	**1**
Active 3D licensees during the period	**4**	**7**
2D - 3D conversion technology shipments	**1,128,089**	**3,952,815**
2D technologies:		
New/renewal 2D license agreements signed in the year	**6**	**2**
Active 2D licensees/affiliates during the period	**5**	**2**
2D technology OEM preinstalls	**423,743**	**173,248**
2D technology consumer downloads	**32,279**	**10,646**
Consumer purchase conversion rate (7 day lag)*	**7.3%**	**9.6%**
Group operations:		
Gross margin on continuing operations	**98.3%**	**98.7%**
Average monthly operating expenditure rate ** - ($’000’s)	**264**	**323**

*A consumer has a minimum of a seven day free trial of the 2D software. This rate is calculated based on consumer direct purchases as a percentage of consumer trial activations from 7 days earlier and averaged for the year.

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

FINANCIAL REVIEW

Revenues for the year ended 31 December 2016 were $379,000 (2015: $706,000). The decrease is directly due to the discontinuation of 3D as a feature by Samsung in 2016/17 TV models.

Other administration expenses decreased by 13.5% to $2,417,000 (2015: $2,793,000) due to continued cost reduction measures.

Depreciation and Amortisation was $2,320,000 (2015: $1,225,000). The amount increased by 89% or $1,095,000. The increase arose from a change in accounting estimate to reduce the life expectancy of intangible capitalised development costs resulting in a one-time adjustment of $779,000 recognized at the start of the 2016 financial year. Additionally, an impairment reserve of $388,000 was recorded in the current year due to the challenges in forecasting future revenues from technologies which are not yet licensed into the market.

Other income net of other expense increased to $373,000 (2015: $270,000). The Group's Australian subsidiary applies annually for a Research & Development ("R&D") refund through the Australian tax authorities which is recorded as other income. In 2016, the R&D refund amount was $442,000 (2015: $383,000). This amount is offset by losses from the disposal of certain fixed and intangible assets totalling $69,000 (2015: loss of $323,000). The additional items effecting 2015 are shown in Note 4 to the consolidated statements.

The non-cash share-based incentive cost decreased to $21,000 (2015: $38,000).

Finance expense (net of income) increased to $125,000 (2015: $65,000) with the extension of the existing Convertible Loan Notes until 2018 and the additional Secured Debt of $2,050,000 taken during the year (due 31 Dec 2017, interest rate of 10% per annum, paid quarterly).

Adjusted Group loss before tax and share-based incentive costs totalled $4,116,000 (2015: $3,116,000). The reported pre-tax loss was $4,137,000 (2015: $3,154,000).

The total taxation expense recognised was $546,000 (2015: $24,000). The primary reason for the increase came from the recognition of an impairment reserve against the deferred tax asset of $645,000 offset by a reduction in the deferred tax liability arising from the impairment of the intangible assets described above.

The Group recorded a loss per share of 2.5 cents per share (2015: 1.9 cents per share).

Net cash used in operating activities was $1,071,000 (2015: $1,079,000). Investing expenditure was $1,002,000 (2015: $1,253,000). This cash flow was supplemented by $2,050,000 of net proceeds raised from the issue of three new secured loan notes (2015: $534,000 net from issuance of convertible loan notes and $1,256,000 of net proceeds in equity placings), resulting in cash of $68,000 at the end of 2016 (2015: $164,000).

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 in the form of Secured Loan Notes (see Note 15) and Convertible Unsecured Loan Notes (see Note 16) with the largest shareholder and members of the Board. The interest rate on this debt is fixed at 7% on the Convertibles and 10% on the Secured debt and the Notes do not include any restrictive financial covenants.

Additionally, the financial reporting currency for presentational purposes is the US dollar. The majority of customer agreements are transacted in US dollars which 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 regularly 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. A description of the Going Concern Review conducted for the current year is included on page 11. The auditors have included an emphasis of matter paragraph regarding going concern for the Group and the parent company accounts (page 14 and 43).

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 should significant discrepancies arise.

Remaining financial risk areas and a sensitivity analysis are discussed more fully in Note 14 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 has found it necessary to litigate in an effort to address unlicensed use 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

2D TECHNOLOGY LICENSING BUSINESS

GenMe Inc. (or "GenMe"), a wholly owned US subsidiary, is responsible for the sales, marketing and licensing of the new 2D Mixed and Augmented Reality software. GenMe is a concatenation of the words Generation Me which describes the diverse audience of end users who increasingly share their daily lives and experiences online through social media. The GenMe office is located in the heart of 'Silicon Beach' in Los Angeles, which has rapidly become the second largest technology community outside Silicon Valley, providing access to the human and investment capital necessary to execute on the full potential of the new solutions.

During 2016, the Group secured six new affiliates for the TriDef SmartCam licensing program, including brand name Tier One PC manufacturers. All of the new affiliate agreements include free trial periods from the time of activation by the end consumer which range from 14 days to 90 days which creates a time delay between

reported shipments from some affiliates and final end user purchase. Additionally, four of the six new distribution partners are scheduled to commence shipments of the majority of their products beginning in 2017. The Group widened the addressable audience by delivering a version of SmartCam that is compatible with Apple's Mac OS X operating system and also broadened the number of third party software products that are compatible with TriDef SmartCam. In response to requests from the business video conferencing community, a new SmartBlur feature was added that blurs the user's background to increase privacy and security on video conference calls.

Real time background substitution and blurring

In recent years, the widespread availability of high speed broadband and mobile data services has dramatically increased the number of business and consumer users who participate in video conference or video chat sessions. Business video conferencing platforms like Webex host over 50 million video attendees per month and consumer video chat platforms such as Microsoft Skype boast over 80 million peak concurrent users each month. In new emerging markets such as gamecasting where game players record and share their video gameplay online, platforms such as Twitch.tv have rapidly risen to become the top sources of internet video with nearly 10 million daily visitors gathering to watch and talk about video games contributed by over 2 million unique game streamers.

As a consequence, many participants are looking for solutions that provide more flexibility as to where they can receive and make video calls so that they don't have to find a tidy, uncluttered space that looks presentable to the other participants on the call. The availability of low cost ultra high definition displays coupled with high definition video cameras means video call participants can now discern sensitive information written on whiteboards or computer screens in the immediate environment, creating a need for visual security for certain professional such as government, legal or financial services users.

Launched in May of 2015, TriDef SmartCam accurately identifies and tracks the end user in real time as they are filmed by their webcam. The user's head and torso is then separated from their immediate background, allowing their natural background to be replaced with an alternate image. The principal is similar to the 'green screen' or chroma-key technology that is used in professional broadcasting to overlay a live weatherperson on a local weather map. Unlike a green screen system however, no specially coloured background is required since TriDef SmartCam uses the Group's proprietary real time image analysis technology to separate the user from their background. As an alternative to replacing the user's background, TriDef SmartCam can also create privacy by blurring the background to prevent call participants from seeing sensitive information in the caller's immediate vicinity.

Prior to TriDef SmartCam, background substitution has either required the end user to have an expensive and cumbersome 'green screen' located behind them or requires the use of a costly 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 millions of pre-existing devices already available to consumers and eliminating incremental hardware cost for the PC, smartphone or tablet manufacturers.

Addressable market:

As a 'middleware' application, TriDef SmartCam is presently compatible with over thirty popular applications including business video conferencing solutions such as Cisco's Webex, Citrix GoToMeeting and Zoom, video chat applications including Skype, QQ from Tencent Holdings, ooVoo and Lenovo's Youyue. In addition to video chat/conferencing, TriDef SmartCam is compatible with popular webcasting/gamecasting applications including SplitmediaLabs' XSplit Broadcaster and XSplit Gamecaster, AVerMedia's RECentral and Open Broadcaster Software (OBS). Importantly, this approach allows the Group to retain control of how quickly end users can use TriDef SmartCam with their intended application as opposed to waiting while the application's developer schedules the time and resource to test and integrate support for the TriDef SmartCam.

Since TriDef SmartCam is compatible with webcams already owned by PC users as well as being compatible with multiple video conference, video chat and webcasting/gamecasting applications, the addressable markets combined represent well over 1 billion end users worldwide.

Initially the company has concentrated its business development resources on the rapidly growing market for video gamecasting, primarily in the United States. Video game players are known to be strong early adopters of new technologies and the low cost, try-before-you-buy alternative to costly green screen or 3D camera systems appeals to these younger, budget-conscious consumers. During the year a number of affiliate agreements were signed with partners that actively focus on the video gaming and gamecasting market including AVerMedia Technologies, GIGABYTE and MSI.

Business Model
The Group operates an 'affiliate' licensing program whereby the Group partners with software developers of video conferencing, video chat, webcasting and gamecasting software applications as well as PC and PC peripheral manufacturers to bring the innovative new TriDef SmartCam features to their end users. In this approach, the affiliate promotes the TriDef SmartCam software to their end users who are then able to download an evaluation version of the TriDef SmartCam software. The evaluation period varies between affiliate partners and typically ranges from 14 to 90 days. At the end of the evaluation period, the end user can elect to purchase the TriDef software license directly from DDD's TriDef.com online store. End user revenue received as a result of the affiliate's involvement in the end user sale is then shared with the affiliate on a calendar quarterly basis with the Group typically retaining 70% of the end user revenue after transactional fees are deducted.

During the year, affiliate agreements were signed with AVerMedia Technologies, GIGABYTE, ASUStek, MSI and Freedom!. Unlike the OEM licensing model, the affiliate program seeks to assist the partner in generating incremental value from their existing customers as well as providing a point of differentiation from their competitors. As such, it is commercially attractive to the affiliate and the value created by TriDef SmartCam from their end users is readily identifiable.

GenMe's TriDef SmartCam software business model currently includes:

- the licensing of the TriDef SmartCam software to developer/publisher affiliates of webcasting, gamecasting, video conferencing and video chat applications yielding **end user software purchases (software sales revenue)**; and

- the licensing of the TriDef SmartCam software to manufacturers of PCs and PC peripherals yielding **end user software purchases (software sales revenue)**; and

- the licensing and sub-licensing via affiliates of the TriDef SmartCam software to Original Equipment Manufacturers (OEMs) for PC, webcam and related accessories yielding **license fees (licensing revenue)** and **per unit royalties (royalty revenue)**; and

- the sale of TriDef SmartCam software directly to end users from the Group's website yielding **per unit license fees (software sales revenue)**.

Specific Risks
Competitive risk exists in the market as follows:

- unlicensed use of the Group's intellectual property;
- alternative background removal methods such as alternative software solutions or infrared hardware sensors used in 3D webcams which may be used by some OEM manufacturers;
- license agreement renewal terms and non-renewals; and
- changes in affiliate marketing methods due to economic conditions or market demand for their products.

Enhanced social photography
The UPix app simplifies the process of creating better selfies and enables a revolutionary capability of making selfies interactive, allowing friends and family to become part of the user's photo.

With UPix, the user can capture the ideal background shot of the scene using the rear-facing camera before the front-facing camera captures their head and shoulders shot. The UPix app then crops their head and shoulders shot and places it in the background scene allowing the user to re-size, move and re-colour their headshot so it appears in the perfect position in their selfie. UPix also allows the user to save their favorite head/shoulder shots for re-use on later selfies.

In a unique first, UPix also makes selfies interactive, allowing friends to add themselves into the original selfie and share it on. The interactive selfies, or 'groupies', are created by downloading and using the original selfie as the UPix background and using UPix to add a second person's head and shoulder selfie into the original picture before saving it and re-sharing it. The UPix app allows others to become part of the groupie at any time and from anywhere in the world.

UPix also enables the creation of virtual selfies, where fans can create and share selfies with their favourite musicians, actors and sports stars. With the continual growth in the use of social media with television shows and films, this creates a closer bond between the stars and their fans all over the world.

Business Model
The distribution of the UPix app is achieved by making it available as a free download in popular online app stores such as the Google Play store and the Apple store. Since some countries limit end user access to platforms like Google Play, the Group also expects that it will make localised versions of UPix available in other brand-specific app stores that are operated by phone/tablet manufacturers in countries such as China.

Each photo created with the UPix app is watermarked with the UPix logo to raise end user awareness when they encounter pictures created with the UPix app. An in-app purchase is available for end users who wish to remove the watermark from their photos. The transaction is processed through the Google account associated with the app and the Group receives 70% of the in app fee net of transaction costs.

GenMe's UPix software business model currently includes:

- the licensing of the UPix software directly to end users from online app stores website yielding **in app purchase revenues (software sales revenue)**.

Specific Risks
Competitive risk exists in the market as follows:

- consumers may not adopt the social photography capabilities to improve their selfie photographs resulting in lower uptake of the app by consumers;
- unlicensed use of the Group's intellectual property; and
- alternative background removal apps being launched by competitors.

Bearing in mind the limited resources available and the positive reception to the new 2D solutions in the PC market, the executive management elected to focus on capitalizing on the early successes in the PC sector and temporarily suspended work on further development of the UPix app however the app will remain available to end users in the Google and Apple app stores. The Group has identified additional innovative applications that leverage existing skills and technologies for mass market use cases and will seek to develop and release these as suitable resources become available or commercial partnerships are secured.

3D TECHNOLOGY LICENSING BUSINESS

Automatic 2D to 3D conversion
The Group's technology to automatically recover 3D depth information from a 2D image and convert the 2D image into a 3D image is licensed into the market for consumer 3D products including televisions, personal computers, smartphones and tablets. Since 2014, many consumer brands have moved away from using the 3D feature as a means to promote the sale of new TVs and other devices. As a result, the Group's licensing revenue from this market has similarly reduced.

Virtual Reality (VR) gaming
The recent emergence of virtual reality (VR) headsets is created a new opportunity for the Group's existing technology that can convert normal PC games from 2D to 3D for viewing in 3D in a VR headset. TriDef VR gaming is the new solution derived from the Group's successful TriDef 3D software. TriDef VR is capable of allowing over 900 of the most popular PC games to be presented in 3D using the latest PC VR headsets.

At CES 2017, a number of leading PC makers demonstrated their lower cost VR headsets that will be introduced during the course of the year in concert with the VR and holographic capabilities of Windows 10. The TriDef VR software is available to end users for a free time-based trial. At the end of the trial period, the end user can subscribe to use the TriDef VR for a three, six or twelve month term, creating the opportunity for recurring license fees as existing users renew their licenses.

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, and mobile 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

- the licensing of the TriDef VR software to manufacturers of PCs and PC peripherals yielding **end user software subscriptions (software sales revenue)**; and

- the licensing and sub-licensing via affiliates of the TriDef VR software to Original Equipment Manufacturers (OEMs) for PC and related peripherals yielding **license fees (licensing revenue)** and **per unit royalties (royalty revenue)**; and

- during the second half of 2017 the TriDef VR software will become available directly to end users from the Group's website yielding **per unit license fees (software sales revenue)**.

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 and/or VR products.

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 56 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. In July 2015, the Group's Australian subsidiary, DDD Research Pty. Ltd., initiated a patent infringement lawsuit in the courts of Los Angeles, California alleging unlicensed use of certain of the Group's US patent claims by the automatic 2D to 3D conversion feature of LG Electronics 3D TV models sold in the United States. The law firm of Quinn Emanuel Urquhart and Sullivan LLP was appointed to act as legal counsel in the litigation with LG. At a scheduling conference call in November 2016, the Court set a jury trial date for May 2018. As the lawsuit progresses through the legal system, the Group expects to provide additional updates as and when appropriate.

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 commercial products or services, yielding **license fees (licensing revenue)** or **per unit/per minute royalties (other licensing royalty revenue)**; and

- when appropriate, initiating litigation against parties whom the Group has a good faith basis to believe are using the claims of the Group's patents without a license, potentially yielding **license fees (licensing revenue)** and **additional damages as may be allowed by the applicable law (other licensing royalty revenue)**.

Specific Risks
Competitive risk exists in the market as follows:

- the Group's intellectual property lawyers may be unsuccessful in assisting in the expansion of the licensing program;

- litigation initiated to assert the applicable patent rights may not be successful;
- defendants against whom such patent infringement lawsuits are brought may seek to challenge the validity of the patented invention with the relevant authorities resulting in some granted claims being reduced in scope or cancelled if such a challenge is successful; 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 litigation specialist, the Group is able to take advantage of industry best practices when asserting its patent rights. The pre-existing technology licensing royalties provide an established value by which license fees can be calculated, mitigating the risk that prospective licensees will seek unfavourable licensing terms since additional licenses can be granted on fair, reasonable and non-discriminatory terms.

CURRENT TRADING AND OUTLOOK

During 2016, over 450,000 copies of TriDef SmartCam were distributed to end users underscoring its appeal to end users and affiliate partners alike. In the second half of the year, the Group successfully signed affiliate license agreements with leading PC OEMs which will significantly increase the distribution of TriDef SmartCam during 2017 to tens of millions of units validating the affiliate licensing model.

Given the positive response to the new PC software, the Group has chosen to focus its limited resources on these products and to temporarily suspend further development of the Android and iOS versions of the technology. The goal is to ensure that the Group maximizes the commercial momentum that has occurred over the second half of 2016.

While the virtual reality market has been the focus of much publicity and hype over the past couple of years, the Group chose to wait until the VR market showed signs of delivering a wider choice of lower cost VR headsets. This evolution was evident at the CES 2017 tradeshow where a number of PC manufacturers demonstrated their VR headsets that are planned for introduction during 2017 to coincide with the recently released VR and Holographic capabilities of Windows 10. As this market evolves during 2017 and 2018, the Group expects to secure further partners for the TriDef VR Games application and is encouraged by the initial response to the April 2017 release of the application by MSI. By developing TriDef VR Games from the proven and widely distributed TriDef 3D Experience application, the Group has been able to deliver the VR solution with low risk and very cost effectively.

More broadly, the Group anticipates that the Augmented and Mixed Reality applications which the Group's products are targeted at will gain additional support and awareness as brand name companies release products targeted at the diverse markets in the coming months. The Group believes that entry into these markets by leading brands will accelerate consumer awareness to these next generation capabilities and also create further commercial opportunities for the Group's technologies in a similar manner to what was experienced when brand name leaders entered the 3D market in 2010.

While the 3D consumer market has now passed, the Group will also continue to work closely with Quinn Emanuel to address the previously 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.

During 2017, the Group will continue to consolidate the commercial momentum and secure additional affiliates and partners for the TriDef SmartCam and the TriDef VR Games apps.

This Strategic Report, as set out on pages 1 to 9, was approved by the Board of Directors of DDD Group plc and signed on its behalf by:

....

Nicholas Brigstocke
Chairman
18 May 2017

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Christopher Yewdall
Chief Executive Officer
18 May 2017

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2016.

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 Corporate Information Section at the back of this document. The Company also has a non-operating subsidiary in the British Virgin Islands.

DIRECTORS DURING THE FINANCIAL PERIOD

The names and biographies of the current Board of Directors are shown on the Company's website at http://dddgroupplc.com/board-of-directors/ and biographical details can be found by selecting the relevant Director for more information. The following Directors held office during the year ended 31 December 2016:

Director	Date of original appointment	Expiration of current term
Nicholas Brigstocke (Non-executive Chairman)	23 November 2001	June 2017
Christopher Yewdall (Chief Executive Officer)	5 September 2001	June 2017
Victoria Stull (Chief Financial Officer)	11 July 2012	June 2018
Dr. Sanji Arisawa (Non-executive director)	10 March 2005	June 2017
Hans Roger Snook (Non-executive director)	12 January 2006	June 2017*
Paul Kristensen (Non-executive director)	23 November 2001	June 2016**

*Hans Snook has notified the Board that he will retire at the end of the current period and not seek re-election. The non-executive position will not be refilled.

**Paul Kristensen retired at the end of June 2016.

In accordance with the Company's Articles of Association ("Articles"), Messrs. Brigstocke, Arisawa and Yewdall will retire by rotation at the Annual General Meeting (AGM) of the Company to be held on 22 June 2017 and will seek re-election at the meeting.

The remuneration of the directors is presented in Note 5 to the Consolidated Financial Statements. Related party transactions are included in Note 24 to the consolidated Group financial statements.

Directors' interests

The disclosable interests of the Directors at 31 December 2016 including shareholdings, if any, of wives and children aged under 18 is presented as follows:

	31 December 2015	31 December 2016	16 May 2017
Nicholas Brigstocke	3,007,045	3,581,323	5,606,323
Christopher Yewdall	3,181,808	3,181,808	5,206,808
Dr. Sanji Arisawa	2,489,200	2,889,200	4,914,200
Hans Roger Snook	4,056,652	4,056,652	4,056,652
Victoria Stull	651,000	651,000	651,000
Paul Kristensen	1,080,204	1,080,204	1,080,204

Contractual interests

Other than the Loan Note transactions more fully described in Notes 15, 16, 24 and 25 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.

DIRECTORS' INDEMNITIES

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force, during the course of the financial year ended 31 December 2016 and at the date of this report, 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.

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.

GOING CONCERN BASIS

During the first quarter of 2017, the Group completed an equity placement and received a secured debt working capital loan from its largest shareholder who continues to support the Group during these challenging times. The Directors have prepared cash flow forecasts up to 31 December 2018 which indicate the Group will require access to additional funds by mid-July 2017. To this end, the Group will participate in Court ordered mediation with the objective of securing a settlement to the ongoing litigation claim, and this mediation is scheduled for the end of May. Additionally, the Group is pursuing several commercial options to secure funds including negotiations for new development agreements and/or arranging financing through the parent company from existing shareholders. In addition the group is at early stages of negotiations to secure funding of the GenMe subsidiary from existing or new shareholders.

Furthermore, the Group may require additional funding within the next 12 months if the projections are inaccurate or a change occurs in the market. The forecast revenue in the cash flow includes estimates of existing contracts which include assumptions regarding the number of shipments and the level of consumer take-up/purchase rates and new revenue streams arising from contracts which are in the final negotiation phase; however there remains uncertainty that contract negotiations will be finalised or performance will be as expected. If there are material adverse variances against these forecasts, the Group would need to implement further mitigating actions to manage cash resources.

It is also anticipated that the some or all of the secured and convertible debt will require a further extension to their expiration terms, which are currently due in early 2018. The Group has put a resolution to shareholders to re-price the convertible loan notes as consideration for the flexibility afforded to the Company by the loan note holders

The Directors have concluded that the combination of these circumstances represent a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Nevertheless after making enquiries, the Directors have a reasonable expectation that the Group 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 14.

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.

OUTSTANDING LITIGATION

**Dynamic Digital Depth Research PTY LTD v. LG Electronics Inc. and LG Electronics USA, Inc.
Case No. 15-cv-05578 (C.D. Cal.):**

On July 23, 2015, Dynamic Digital Depth Research PTY LTD ("DDDR") filed a complaint against LG Electronics, Inc. and LG Electronics USA, Inc. (collectively, "LGE") in the U.S. District Court for the Central District of California, asserting infringement of U.S. Patent Nos. 6,477,267 (the "'267 patent"); 6,496,598 (the "'598 patent"), and 7,489,812 (the "'812 patent") (collectively, the "patents-in-suit"), against LGE's 3D televisions with automatic 2D-to-3D conversion capabilities. The complaint seeks damages, injunctive relief, interest, a finding of wilfulness, and a declaration that the action is exceptional. At a scheduling conference call in November 2016, the Court set a jury trial date for May 2018.

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 25 to the consolidated Group financial statements.

DIVIDEND

The Directors do not propose the payment of a dividend (2015: nil). In due course, the Directors will consider the payment of dividends, as and when the Group is in a position to do so.

PURCHASE OF OWN SHARES

During the Annual General Meeting in 2016, the Directors neither sought nor obtained permission from shareholders for any type of share buyback program and will not be doing so at the 2017 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 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. More information can be found in the Current Trading and Outlook section of the Strategic Report on page 9.

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 capitalised expenditure on internal development in the current year was $846,000 (2015: $1,094,000).

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.

POLITICAL DONATIONS

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

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), including FRS101 Reduced Disclosure Framework, 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 parent 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 10 to 13, was approved by the Board of Directors of DDD Group plc and signed on its behalf by:

....

Nicholas Brigstocke
Chairman
18 May 2017

Christopher Yewdall
Chief Executive Officer
18 May 2017

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 2016 which comprise the consolidated statement of total 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 page 13, 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 2016 and of the its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Going concern

In forming our opinion on the 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 $4,683,000 during the year ended 31 December 2016 and, at that date, the group's current liabilities exceeds its total assets by $1,803,000 and had net current liabilities of $3,375,000. 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 financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the group financial statements are prepared is consistent with the financial statements.
- the Strategic Report and Directors' Report has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and Directors' Report.

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. That report includes an emphasis of matter.

Perry Burton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
Date: 18 May 2017

Consolidated statement of comprehensive income for the year ended 31 December 2016

	Notes	**31 Dec 2016 $'000**	31 Dec 2015 $'000
Revenue	3	**379**	706
Cost of sales	3	**(6)**	(9)
Gross profit	3	**373**	697
Depreciation/amortisation expense	10,11	**(2,320)**	(1,225)
Share based payments	20	**(21)**	(38)
Other administration expenses		**(2,417)**	(2,793)
Total administrative expenses		**(4,758)**	(4,056)
Other income	**4**	**373**	270
Operating loss		**(4,012)**	(3,089)
Analysed as:			
(Loss) before interest, taxes, depreciation, amortisation and share based payments (Adjusted EBITDA)		**(1,671)**	(1,826)
Depreciation/amortisation expense		**(2,320)**	(1,225)
Share based payments		**(21)**	(38)
		(4,012)	(3,089)
Finance expense	7	**(125)**	(65)
Loss from continuing operations before tax		**(4,137)**	(3,154)
Income tax expense	8	**(546)**	(24)
Loss for the year		**(4,683)**	(3,178)
Other comprehensive income) for the year:			
Exchange differences on translation of foreign operations which will be subsequently reclassified to profit and loss		**229**	148
Other comprehensive income for the year, net of tax		**229**	148
Total comprehensive loss for the year		**(4,454)**	(3,030)
Loss per share:			
Total & Continuing Operations – Basic & Diluted (per share)	9	**($0.025)**	($0.019)

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

Consolidated statement of financial position as at 31 December 2016

	Notes	**31 Dec 2016 $'000**	31 Dec 2015 $'000
Assets			
Non-current assets			
Intangible assets	10	**1,242**	2,755
Property, plant and equipment	11	**13**	12
Security Deposits	19	**17**	82
Deferred tax asset	12	**300**	1,096
Total non-current assets		**1,572**	3,945
Current assets			
Trade and other receivables	13	**31**	322
Security Deposit	14,19	**64**	--
Cash and cash equivalents	14	**68**	164
Total current assets		**163**	486
Total assets		**1,735**	4,431
Equity and liabilities			
Capital and reserves			
Issued capital	21	**10,613**	12,735
Share premium	21	**14,341**	17,207
Merger reserve		**16,381**	19,656
Share based payment reserve		**762**	1,651
Translation reserve		**11,486**	2,718
Retained earnings		**(56,654)**	(52,605)
Total equity		**(3,071)**	1,362
Non-current liabilities			
Financial liabilities	14,16	**1,067**	573
Deferred tax liabilities	17	**201**	480
Total non-current liabilities		**1,268**	1,053
Current liabilities			
Trade and other payables	18	**1,488**	1,218
Financial liabilities	14,15	**2,050**	798
Total current liabilities		**3,538**	2,016
Total liabilities		**4,806**	3,069
Total equity and liabilities		**1,735**	4,431

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

The consolidated financial statements were approved by the board of Directors on 18 May 2017 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 2016

	Notes	**12 months to 31 Dec 2016 $'000**	12 months to 31 Dec 2015 $'000
Cash flows from operating activities			
Loss for the year		**(4,683)**	(3,178)
Finance expense in the consolidated statement of comprehensive income	7	**125**	65
Tax in the consolidated statement of comprehensive income	8	**546**	24
Amortisation	10	**2,311**	1,201
Depreciation	11	**9**	24
Loss on disposal of assets	10,11	**69**	323
Share based payments	20	**21**	38
Decrease in trade and other receivables		**291**	249
Increase in trade and other payables		**270**	301
Net cash used in operations		**(1,041)**	(953)
Income tax paid	8	**(30)**	(126)
Net cash used in operating activities		**(1,071)**	(1,079)
Cash flows from investing activities			
Increase in leasehold security	19	**--**	(17)
Net Interest paid	7	**(131)**	(81)
Payments for intangible assets	10	**(862)**	(1,147)
Payments for property, plant and equipment	11	**(9)**	(8)
Net cash used in investing activities		**(1,002)**	(1,253)
Cash flows from financing activities			
Proceeds from the issue of loan note	15,16	**2,050**	534
Proceeds from issue of equity shares	21	**--**	1,388
Issuance costs	21	**--**	(132)
Net cash generated by financing activities		**2,050**	1,790
Net decrease in cash and cash equivalents		**(24)**	(542)
Exchange (losses)/gains		**(73)**	9
Total decrease in cash and cash equivalents		**(96)**	(533)
Cash and cash equivalents at the start of the year		**164**	697
Cash and cash equivalents at the end of the year	14	**68**	164

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

Consolidated statement of changes in equity for the year ended 31 December 2016

	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 2015	**12,636**	**17,467**	**20,627**	**1,849**	**124**	**(49,605)**	**3,098**
Transactions with owners							
Issue of shares	694	562	--	--	--	--	1,256
Share based payment reserve transfer[1]	--	--	--	(178)	--	178	--
Equity settled share options	--	--	--	38	--	--	38
Foreign exchange differences	(595)	(822)	(971)	(58)	2,446	--	--
Total transactions with owners	99	(260)	(971)	(198)	2,446	178	1,294
Comprehensive income							
Total profit for the year – reported	--	--	--	--	--	(3,178)	(3,178)
Other comprehensive income - Foreign exchange	--	--	--	--	148	--	148
Total comprehensive income	--	--	--	--	148	(3,178)	(3,029)
At 31 December 2015	**12,735**	**17,207**	**19,656**	**1,651**	**2,718**	**(52,605)**	**1,362**
Transactions with owners							
Issue of shares							
Share based payment reserve transfer[1]	--	--	--	(634)	--	634	--
Equity settled share options	--	--	--	21	--	--	21
Foreign exchange differences	(2,122)	(2,866)	(3,275)	(276)	8,539	--	--
Total transactions with owners	(2,122)	(2,866)	(3,275)	(889)	8,539	634	21
Comprehensive loss							
Total loss for the year	--	--	--	--	--	(4,683)	(4,683)
Other comprehensive loss - Foreign exchange	--	--	--	--	229	--	229
Total comprehensive loss	--	--	--	--	229	(4,683)	(4,454)
At 31 December 2016	**10,613**	**14,341**	**16,381**	**762**	**11,486**	**(56,654)**	**(3,071)**

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

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

NOTES TO THE ACCOUNTS

1. Basis of preparation

The consolidated Group financial statements are for the year ended 31 December 2016. 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 2016.

Change in Accounting Estimate:

Beginning 1 January 2016, the Board has authorised a change in the capitalisation of development costs (intangible assets) to reduce the useful lives as the Group's 3D business winds down and the 2D business emerges. Historically, the project lifetimes were from three to five years, this has been reassessed and the new periods will range from one to three years. The result is a one-time impairment charge recorded in the current period of $779,000.

Going Concern Review:

During the first quarter of 2017, the Group completed an equity placement and received a secured debt working capital loan from its largest shareholder who continues to support the Group during these challenging times. The Directors have prepared cash flow forecasts up to 31 December 2018 which indicate the Group will require access to additional funds by mid-July 2017. To this end, the Group will participate in Court ordered mediation with the objective of securing a settlement to the ongoing litigation claim, and this mediation is scheduled for the end of May. Additionally, the Group is pursuing several commercial options to secure funds including negotiations for new development agreements and/or arranging financing through the parent company from existing shareholders. In addition the group is at early stages of negotiations to secure funding of the GenMe subsidiary from existing or new shareholders.

Furthermore, the Group may require additional funding within the next 12 months if the projections are inaccurate or a change occurs in the market. The forecast revenue in the cash flow includes estimates of existing contracts which include assumptions regarding the number of shipments and the level of consumer take-up/purchase rates and new revenue streams arising from contracts which are in the final negotiation phase; however there remains uncertainty that contract negotiations will be finalised or performance will be as expected. If there are material adverse variances against these forecasts, the Group would need to implement further mitigating actions to manage cash resources.

It is also anticipated that the some or all of the secured and convertible debt will require a further extension to their expiration terms, which are currently due in early 2018. The Group has put a resolution to shareholders to re-price the convertible loan notes as consideration for the flexibility afforded to the Company by the loan note holders

The Directors have concluded that the combination of these circumstances represent a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Nevertheless after making enquiries, the Directors have a reasonable expectation that the Group 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 2016

The following standards, amendments and interpretations became effective in 2016:

Standard/ interpretation	Content	Applicable for financial years beginning on/after
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Annual Improvements to IFRSs	2010-2012 Cycle	1 February 2015
Annual Improvements to IFRSs	2012-2014 Cycle	1 January 2016
Amendments to IAS 1	Disclosure Initiative: Presentation of Financial Statements	1 January 2016

* 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 15 March 2017) but not effective, based on EU mandatory effective dates, for accounting periods commencing on 1 January 2017 are:

Standard/ Interpretation	Content	Applicable for financial years beginning on/after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018

NOTES TO THE ACCOUNTS

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 2016. 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 license payments, royalty income and software sales (excluding VAT) incurred in the normal course of business.

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

NOTES TO THE ACCOUNTS

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.

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.

Software sales
Software sales revenues are earned on consumer and reseller purchases of the TriDef PC software products currently sold on the TriDef.com website and the Group's App sales via Google Play™ store 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.

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.

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 one to three years (previously three to five years prior to the accounting change that became effective as of 1 January 2016 discussed in Note 1).

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

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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 is 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 enacted or 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.

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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 granted on various dates between February 2012 and June 2015.

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

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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.

Going Concern

Management regularly monitors the business and cash flow models to ensure access to sufficient capital for the Group. Significant judgement is required regarding the assumptions underlying the going concern analysis each year. The current year assessment is discussed in Note 1.

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 10.

Convertible Loan Notes – Initial measurement

The Company has issued unsecured Convertible Loan Notes. While in legal form the 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 16.

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 10.

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.

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- “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 by the executive Directors, the chief operating decision makers. 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.

	2016 2D Ops $’000	2016 3D Ops $’000	2016 Parent $’000	**2016 Total $’000**	Restated 2015 2D Ops $’000	Restated 2015 3D Ops $’000	Restated 2015 Parent $’000	2015 Total $’000
REVENUES:								
Royalties from OEM units shipments	1	175	--	**176**	--	596	--	596
Other licensing royalties	--	82	--	**82**	--	25	--	25
Software sales – direct to consumer	27	94	--	**121**	8	77	--	85
Total revenue	**28**	**351**	--	379	**8**	**698**	--	706
Cost of goods sold	(5)	(1)	--	**(6)**	(2)	(7)	--	(9)
Gross profit	23	350	--	**373**	6	691	--	697
Margin	80%	100%		**98.3%**	75%	99%		98.7%
OPEX	(1,943)	(224)	(250)	**(2,417)**	(1,933)	(412)	(448)	(2,793)
Other Income	--	373	--	**373**	--	270	--	270
EBITDA Adjusted*	(1,920)	499	(250)	**(1,671)**	(1,927)	549	(448)	(1,826)

*EBITDA is earnings before interest, taxes, depreciation, amortisation and adjusted for share based compensation.

The following are assets and liabilities in the statement of financial position that are directly attributable to the 2D operation.

	2016 $000s	Restated 2015 $000s
Intangible Assets	**1,114**	1,819
Trade and Other Receivables	**--**	22
Cash & Equivalents	**1**	1
Total Assets	**1,115**	1,842
Trade & other payables	**29**	38
DTL	**185**	325
Total Liabilities	**214**	363

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Major customers

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

	2016 $000	%	2015 $000	%
Samsung (2016/15: 100% Royalties)	169	44.6%	608	86.1%
Major customer total	169	44.6%	608	86.1%
All other sources	210	55.4%	98	13.9%
Total gross revenues	379	100.0%	706	100.0%

Regional breakdown

	2016	2015
Asia Pacific	65%	89%
North America	20%	4%
Europe	12%	<5%
All other	3%	<5%

4. Loss before tax from continuing operations

Loss before tax has been arrived at after charging/(crediting):	**2016 $'000**	2015 $'000
Foreign exchange loss	**83**	10
Depreciation and amortisation:		
Depreciation of property, plant and equipment (Note 11)	**9**	24
Amortisation of intangible assets* (Note 10)	**2,320**	1,201
*Includes impairment charges in 2016		
Employee benefits expense:		
Employee costs (Note 6)	**2,209**	2,791
Other operating leases	**157**	245
Audit and non-audit services:		
Fees payable to the Company's auditor for the audit of the Group accounts	**54**	74
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	**26**	18
Other services pursuant to legislation	**--**	--
Significant components of other income/(loss):		
Australian R&D tax refund	**442**	383
Sale of website	**--**	205
Loss on asset disposals in the period	**(69)**	(323)

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

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5. Remuneration of key management personnel

	2016 $'000	2015 $'000
Emoluments	**595**	646
Emoluments – highest paid director	**354**	355
Pension costs – defined contribution plans	**17**	17
Social security contributions	**26**	27
Share based payment – share options	**21**	36
	1,013	1,081

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 (2015: 1).

The Non-Executive directors hold nil share options as at 31 December 2016 as the January 2011 option grant expired in January 2016 and were lapsed (2015: 800,000 outstanding). The Executive directors held 3,450,000 share options as at 31 December 2016 related to their services as executives to the Group (2015: 5,650,000). During 2016, 1,400,000 of share options from the January 2011 grant expired and were lapsed. The Directors earned emoluments of $770,000 of which $316,000 were deferred during the year.

6. Employees

	2016 $'000	2015 $'000
Employee costs:		
Wages and salaries	**2,062**	2,595
Pension costs	**81**	98
Social security costs	**45**	60
Share based payments – share options	**21**	38
	2,209	2,791

	2016	2015
The average number of employees during the year was made up as follows:		
Dedicated research and development	**4**	5
Software engineering	**3**	4
Sales	**4**	5
Finance and administration	**3**	4
Total staff	**14**	18
Non-executive directors (NEDs)	**3**	4
Grand total	**17**	22

Total number of full-time employees at year end was 13 (2015: 16).

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7. Finance (expense)/income

	2016 $'000	2015 $'000
Finance income (bank interest received)	**7**	7
Finance expense:		
Interest paid in the period	**(131)**	(88)
Unpaid interest due at year end	**(94)**	--
Interest accrued in the period	**(1)**	(1)
Finance charge (non-cash change in valuation of financial liabilities)	**94**	17
	(132)	(72)
Net finance (expense)/income	**(125)**	(65)

8. Income tax

	2016 $'000	2015 $'000
Current tax:		
Current year tax charge	**30**	126
Total current tax	**30**	126
Deferred tax asset losses utilised in the year	**151**	365
Deferred tax asset addition in the year	**--**	(365)
Deferred tax asset impairment write-down in the year	**645**	--
Deferred tax liability movement (Note 17)	**(280)**	(102)
	546	24

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:

	2016 $'000	2015 $'000
Loss on ordinary activities before tax	**(4,137)**	(3,154)
Loss at 20% (2015: 20%)	**(827)**	(631)
Effects of:		
Higher foreign tax rates	**(407)**	(481)
Income / Expenses not deductible for tax purposes	**371**	79
Estimated usage of subsidiary historical losses to cover income tax	**(151)**	(365)
Tax losses carried forward	**966**	1,233
Impairment write-down of DTA	**796**	--
Other temporary differences	**(232)**	63
Foreign withholding tax	**30**	126
Tax charge on ordinary activities	**546**	24

Given that large portion 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.

NOTES TO THE ACCOUNTS

There are substantial unrelieved tax losses and tax credits of $37,906,000 (2015: $39,507,000) across the Group companies as set out below:

	USA $'000	UK $'000	Australia $'000	Total $'000
At 31 December 2016				
Unrelieved tax losses & credits	17,750[1]	7,007	13,149	37,906
Local rate of tax	40%[2]	17%	30%	
Potential deferred tax asset	7,100	1,191	3,945	12, 236
DTA recognised	--	--	(300)	(300)
Unprovided potential deferred tax asset	7,100	1,191	3,645	11,936
At 31 December 2015				
Unrelieved tax losses & credits	18,196[1]	7,563	13,748	39,507
Local rate of tax	40%[2]	18%	28.5%	
Potential deferred tax asset	7,278	1,361	3,918	12,557
DTA recognised	--	--	(1,096)	(1,096)
Unprovided potential deferred tax asset	7,278	1,361	2,822	11,461

[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 2016, 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.

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9. Loss per share

	2016	2015
	$'000	$'000
Total loss for the year attributable to equity shareholders	**(4,683)**	(3,178)
Total loss per share:		
Basic & Diluted (per share)	**$ (0.025)**	$ (0.019)
	Shares	Shares
Issued ordinary shares par 1p at start of the year	**190,588,572**	143,663,572
Ordinary shares issued in the year (see Note 21)	**--**	46,925,000
Total outstanding ordinary shares at end of the year	**190,588,572**	190,588,572
Weighted average number of ordinary shares for the year	**190,588,572**	165,337,819
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)	**265,005,119**	265,005,119

[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 2016 and 2015, 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.

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10. Intangible assets

	Capitalised development costs $'000	Patents $'000	Other intangibles $'000	Total $'000
Cost				
At 1 January 2015	8,390	364	81	8,835
Additions	1,094	53	--	1,147
Disposals	(1,183)	(56)	(51)	(1,290)
Exchange rate differences	(25)	--	(2)	(27)
At 31 December 2015	8,276	361	28	8,665
Additions	846	16	--	862
Disposals	(2,517)	(118)	--	(2,635)
Exchange rate differences	(28)	--	--	(28)
At 31 December 2016	6,577	259	28	6,864
Amortisation				
At 1 January 2015	5,479	267	48	5,794
Charge for the year	1,161	25	15	1,201
Disposals	(916)	(18)	(34)	(968)
Exchange rate differences	(115)	(1)	(1)	(117)
At 31 December 2015	5,609	273	28	5,910
Charge for the year	1,121	23	--	1,144
Impairment reserve[1]	1,167	--	--	1,167
Disposals	(2,463)	(103)	--	(2,566)
Exchange rate differences	(33)	--	--	(33)
At 31 December 2016	5,401	193	28	5,622
Net book value				
At 31 December 2014	2,911	97	33	3,041
At 31 December 2015	2,667	88	--	2,755
At 31 December 2016	**1,176**	**66**	**--**	**1,242**

[1]The impairment charge has two components. First, the non-cash impairment charge arising from the change in accounting estimate that has been recognized through the amortisation line in the consolidated statement of comprehensive income. The impact of the change in estimate represented $628,000 in the 3D segment and $151,000 to the 2D segment. There is also a $388,000 non-cash impairment reserve to the capitalised development intangible included in the current year charge for 2016 (2015: nil) following a review of the related product technologies and the challenges in forecasting future cash flows for certain technologies that are not currently subject to executed license or distribution agreements. The impairment reserve is recognised through the amortisation line in the consolidated statement of comprehensive income. The impairment represented $37,000 in the 3D segment and $351,000 in the 2D segment.

Three of the Group's 2D to 3D conversion patents (DDC1, DDC7, and Real-time conversion) are partially encumbered to Arisawa Manufacturing Company under the secured debt agreements discussed in Note 15. All three patents are part of the outstanding litigation and have no net book value reported above (fully amortised).

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11. Property, plant and equipment

	Leasehold improvements $'000	Furniture, fittings and equipment $'000	Total $'000
Cost			
At 1 January 2015	15	321	336
Additions	--	8	8
Disposals[1]	--	(9)	(9)
Exchange rate differences	1	(19)	(18)
At 31 December 2015	16	301	317
Additions	8	1	9
Disposals	(10)	(45)	(55)
Exchange rate differences	2	(1)	1
At 31 December 2016	**16**	**256**	**272**
Depreciation			
At 1 January 2015	14	290	304
Charged in the year	3	21	24
Disposals[1]	--	(8)	(8)
Exchange rate differences	(1)	(14)	(15)
At 31 December 2015	16	289	305
Charged in the year	2	7	9
Disposals	(10)	(45)	(55)
Exchange rate differences	--	--	--
At 31 December 2016	**8**	**251**	**259**
Net book value			
At 31 December 2014	1	31	32
At 31 December 2015	--	12	12
At 31 December 2016	**8**	**5**	**13**

[1] During 2016, the US office lease expired and the operation moved into a new, smaller office in Marina del Rey, CA. The result was a significant amount of disposals of all non-relevant assets in addition to leasehold improvements from the previous office that the US subsidiary had occupied since 2011. There was no not gain or loss from the disposals.

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

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12. Deferred tax asset

	2016 $'000	2015 $'000
Opening balance January 1	**1,096**	1,096
Usage in the year by subsidiaries	**(151)**	(365)
Adjustment to deferred tax asset – (impairment)/increase	**(645)**	365
Net movement in deferred tax asset	**(796)**	--
Deferred tax asset - Losses	**300**	1,096

Based on management's review of the subsidiaries and the fact that the Australian subsidiaries have utilised accrued net operating losses in recent periods for tax purposes, and given the reduction in the 3D business, a DTA of $300,000 has been deemed appropriate in 2016 (2015: $1,096,000) related to recently revised business model forecasts of profitability and anticipated tax loss usage in the near term.

13. Trade and other receivables

	2016 $'000	2015 $'000
Trade receivables	**9**	205
Unbilled receivables	**4**	3
Prepayments	**18**	81
Other receivables	**--**	33
	31	322

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 trade receivables are 100% current at year end. As no receivables are past due, they are not deemed to be impaired.

14. 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 liquidity risk.

Categories of financial instrument

	2016 $'000	2015 $'000
Financial assets:		
Loans and receivables	**9**	205
Other receivables	**4**	36
	13	241
Restricted cash[1]	**64**	65
Cash and cash equivalents	**68**	164
Total financial assets:	**145**	470

[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 initially valued at $72,000 (AUD 88,000) was made into a restricted cash 12 month term deposit account as security for the agreement. The

NOTES TO THE ACCOUNTS

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%). The term deposit was renewed on 1 November 2015 at a rate of 2.8% for the second year and on 19 December 2016 at a rate of 2.7% for the third year.

	2016	2015
	$'000	$'000
Financial liabilities:		
Current		
Trade payables at amortised cost (Note 18)	**30**	33
Unpaid interest on debt (Note 18)	**94**	-
Other accrued liabilities (Note 18)	**432**	466
Director accrued liabilities (Note 18)	**749**	409
Financial liabilities (Note 15)	**2,050**	-
Financial liabilities at amortised cost (Note 16)	**--**	798
	3,355	1,706
Non-Current		
Financial liabilities at amortised cost (Note 16)	**1,067**	573
Total financial liabilities	**4,422**	2,279

Maturity analysis

The following table presents the above financial liabilities for 2016 based on their maturity dates at the end of the financial year.

Due in:	**6 months or less**	**6-12 months**	**1-2 years**	**Over 2 years**
Trade payables	30	--	--	--
Unpaid interest	94	--	--	--
Other accrued liabilities	432	--	--	--
Director liabilities	749	--	--	--
Secured Debt (Note 15)	-	2,050	--	--
Convertible Loan Notes (Note 16)	-		1,067	--
Total	1,305	2,050	1,067	--

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 equity and debt fundraising and Management expects to continue this method successfully in the future. The going concern assessment is discussed in Note 1.

The liquidity risk is monitored by Management under the supervision of the Board. The Group and operating entities monitor 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 and March 2015, convertible unsecured loan notes were issued (Note 16) and in March 2015 and September 2015 equity placings were completed (Note 20). Furthermore, in February, May 2016 and August 2016, secured loan notes were entered into with Arisawa Manufacturing Company (Note 15). Additionally, since the end of the year, an equity fundraising of $270,000 was completed in February and an additional secured loan line of credit has been agreed with Arisawa Manufacturing for up to $750,000 (Note 24).

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

Foreign currency risk

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

	2016	2015
	$'000	$'000
Pounds Sterling	3	40
US dollars	13	52
Australian dollars	52	72
	68	164

NOTES TO THE ACCOUNTS

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 2016/17.

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 2016 would move by $8,000 (2015: $68,000), and the movement in shareholder's equity would have been $ nil for both 2016 and 2015. 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 2016 would move by $38,000 (2015: $53,000), and the movement in shareholders' equity given that the functional currency is sterling would have been $4,468,000 (2015: $4,505,000).

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%	**2016 $'000**	Interest rate%	2015 $'000
Cash and balances with central banks	**0% to 2.7%**	**132**	0% to 2.8%	229
Restricted cash	**2.7%**	**(64)**	2.8%	(65)
Cash at bank available for use	**0% to 1.1%**	**68**	0% to 1.7%	164

The Group and operating entities had no committed borrowing facilities at 31 December 2016 (2015: 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 $13,000 (2015: $208,000). The institutions where bank deposits are held are all considered to be low risk having ratings by Moody's of Aa3 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.

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 21. The Chief Financial Officer regularly monitors the capital risk on behalf of the board.

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15. Secured Loan Notes

	2016 $'000	2015 $'000
Secured Loan Notes	**2,050**	--

During 2016, the Company's largest shareholder, Arisawa Manufacturing Company, entered into three secured loan note agreements with the Company.

The first agreement was entered into on 8 February 2016 for $800,000. The Loan is secured by the Company's US 2D to 3D conversion patent number 6,477,267 and its international counterparts. The interest on the loan is paid at a rate of 10% per annum each calendar quarter in arrears. The note is short-term however the term of the note can be extended with agreement by the parties as needed.

The second agreement was entered into on 20 May 2016 in the amount of $750,000. The Loan is secured by the Company's US 2D to 3D conversion patent number 7,489,812. The interest on the loan is paid at a rate of 10% per annum each calendar quarter in arrears. The note is short-term however the term of the note can be extended with agreement by the parties as needed.

The third agreement was entered into on 10 August 2016 in the amount of $500,000. The Loan is secured by the Company's US 2D to 3D conversion patent number 6,496,598. The interest on the loan is paid at a rate of 10% per annum each calendar quarter in arrears. The note is short-term however the term of the note can be extended with agreement by the parties as needed.

All three notes were extended in December 2016 and their due date is currently 31 December 2017.

16. Convertible Loan Notes

	2016 $'000	2015 $'000
Opening balance	**1,371**	912
Value of Notes on issuance	**--**	534
CTA – unrealized FX movement during the year	**(210)**	(58)
Finance charges during the year	**(94)**	(17)
Financial liability element of Convertible Loan Notes	**1,067**	1,371
Current portion		
2014 Notes	**--**	798
Long-term portion		
2014 Notes	**645**	--
2015 Notes	**422**	573
TOTAL	**1,067**	1,371

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.

On 6 March 2015, the Company issued Convertible Unsecured Loan Notes ("2015 Notes") totalling £350,000 ($534,000 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 2015 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 5 pence nominal amount of 2015 Notes per Share. The Company has the option to redeem the 2015 Notes at any time at a 5% premium to their nominal value plus accrued interest.

The 2014 Notes and the 2015 Notes have an annual interest rate of 7%. Interest payments are made semi-annually on 28 June and 28 December of each year.

Following the loan note extensions completed in December 2016, the 2014 Notes have conversion rights to equity and mature on 30 January 2018. The 2015 Notes have the same rights but mature on 5 March 2018. As such they are treated as compound instruments. The valuation of the liability is achieved by discounting the maturity

NOTES TO THE ACCOUNTS

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 notes' equity element is considered an immaterial amount at the time of the establishment of the loan and therefore the financial liability element is $1,067,000 or £865,000 (2015: $1,371,000 or £926,000). The change in the valuation in the denominated currency is charged to the consolidated statement of comprehensive income as finance charges (Note 7).

The Notes can be extended with the consent of the Company and have been. The compound instrument calculations reflect the period change effective on the date of the extension.

17. Deferred tax liability

	2016 $'000	2015 $'000
1 January	**480**	582
Temporary differences arising from capitalised development costs	**(268)**	(49)
Change in enacted income tax rate on previously recognised deferred tax liability arising from capitalised development costs	**(11)**	(53)
31 December	**201**	480

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

18. Trade and other payables

	2016 $'000	2015 $'000
Current liabilities		
Trade payables	**30**	33
Interest payable	**94**	--
Accrued expenses and deferred income	**1,364**	1,185
	1,488	1,218

The accrued expenses include $183,000 (2015: $310,000) of deferred income from prepaid license fees and advance royalty payments from licensees which are non-refundable. The accrued expenses also include a total of $749,000 (2015: $409,000) of accrued director salaries and fees that have been cumulatively deferred from 2014-2016.

The Group's payables are unsecured. The interest payable is past due with the consent of the debt holders. The amounts were due December 31, 2016. The Directors consider that the carrying value approximates their fair value.

19. Operating lease commitments

	2016 $'000	2015 $'000
The following payments are due to be made on operating lease commitments for land and buildings:		
Within one year	**142**	157
Two to five years	**389**	430
Over five years	**78**	180
	609	767

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

The Australian office lease in West Perth is a three year lease which is secured by a restricted cash deposit account in the currently valued amount of $64,000 (AUD 88,000) which is included in the other current assets as a short-term deposit account in the financial statements given that the lease expiration is 1 November 2017.

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The US office lease began in February 2016 and includes a security deposit of $17,000 which is recorded as Long-Term deposit. The lease is for seven years.

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.

20. 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 2016:

Issue Date	Options in issue	Exercise Price (pence)	Expiry Date:
14 February 2012[1]	2,320,000	27.25	13 February 2017
9 July 2012[1]	600,000	25.00	8 July 2017
8 June 2015	3,450,000	1.75	7 June 2020

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

	2016 WAEP		2015 WAEP	
	Number	**p**	Number	p
Outstanding at the beginning of the year	**10,360,000**	**14.9**	7,110,000	21.9
Granted during the year	**--**	**--**	3,650,000	1.75
Exercised during the year	**--**	**--**	--	--
Lapsed/expired during the year	**(3,790,000)**	**18.49**	(200,000)	17.90
Forfeited during the year	**(200,000)**	**1.75**	(200,000)	19.63
Outstanding at the year end	**6,370,000**	**13.2**	10,360,000	14.9
Exercisable at the year end	**4,070,000**	**19.7**	6,710,000	22.1

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
8 Jun 15[1]	3	7 Jun 18	1.75	1.48%	1.75	76%	1.08	3,450,000
9 July 12[1]	3	9 July 15	25.0	1.75%	25.00	112%	19.96	600,000
14 Feb12[1]	3	14 Feb 15	27.25	1.75%	27.25	111%	21.65	2,320,000

The Group recognised total expenses of $21,000 (2015: $38,000) 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.

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21. 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 2015	74,416,547	10,405	--	10,405
Foreign exchange adjustment	--	(491)	--	(491)
31 December 2015	74,416,547	9,914	--	9,914
Foreign exchange adjustment	--	(1,651)	--	(1,651)
31 December 2016	74,416,547	8,263	--	8,263
Ordinary shares (par 1p)				
In issue 1 January 2015	143,663,572	2,231	17,467	19,698
Share placing[1]	22,500,000	333	250	583
Share placing[2]	24,425,000	361	312	673
Foreign exchange adjustment	--	(104)	(822)	(926)
In issue 31 December 2015	190,588,572	2,821	17,207	20,028
Foreign exchange adjustment	--	(471)	(2,866)	(3,337)
In issue 31 December 2016	190,588,572	2,350	14,341	16,691
All shares				
In issue 31 December 2016	**265,005,119**	**10,613**	**14,341**	**24,954**
In issue 31 December 2015	265,005,119	12,735	17,207	29,942

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

[1] On 9 March 2015, approved by shareholders at an EGM held 31 March 2015, the Company raised $668,000 (£450,000) before expenses through a private placement of 22,500,000 ordinary shares of 1 penny each in the capital of the Company at a placing price of 2 pence per share.

[2] On 22 September 2015, the Company raised an additional $746,000 (£483,500) before expenses through a private placement of 24,175,000 ordinary shares of 1 penny each in the capital of the Company at a placing price of 2 pence per share. An additional 250,000 ordinary shares were issued to Beaufort Securities under the terms of their placing agreement.

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 9 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

NOTES TO THE ACCOUNTS

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.

22. Contingent assets or liabilities

The Group had no contingent assets or liabilities at 31 December 2016 or 31 December 2015.

23. Capital commitments

The Group had no capital commitments at 31 December 2016 or 31 December 2015.

24. Related party transactions

(1) Commercial transactions

There were no material commercial transactions with related parties during the year.

(2) Financing

Notes 15 and 16 describe the secured and convertible unsecured debt that has been extended from the Company's largest shareholder, Arisawa Manufacturing Company, and members of the board of directors. Below is a table of principal balances at year end in the currency as denominated as well as USD value interest payments that were due to the related parties on the outstanding debt during the year.

	Principal borrowing 31 Dec 16	2016 Total Interest Due USD	Unpaid Interest (USD) at 31 Dec 16
Secured Notes (Note 15):			
Arisawa Manufacturing Company	$2,050,000	$139,500	$52,000
Convertible Notes (Note 16):			
Arisawa Manufacturing Company	£720,000	$68,000	$34,000
Hans Snook (affiliate) - NED	£50,000	$4,000	$2,000
Nicholas Brigstocke - NED	£40,000	$4,000	$2,000
Dr Sanji Arisawa – NED	£35,000	$4,000	$2,000
Christopher Yewdall – CEO	£30,000	$3,000	$1,500
Victoria Stull, CFO	£10,000	$1,000	$500

NOTES TO THE ACCOUNTS

(3) Other financial transactions

The following related party stock transactions occurred during the period:

On 24 February 2016, Dr. Sanji Arisawa, non-executive director, purchased 400,000 ordinary 1p shares in the Company through the open market at 2.5 pence per share for his personal account.

On 27 July 2016, Nick Brigstocke, Non-Executive Chairman, purchased 574,278 ordinary 1p shares in the Company at an average price of 0.5 pence per share.

Details of all transactions can be found in the press release available at www.dddgroupplc.com.

25. Events after the balance sheet date

Financial:

On 20 February 2017, the Company announced that it had entered into subscription agreements for an equity placing of £216,500 or 10,825,000 ordinary 1p shares at a price of 2p per share. Mr. Michael Stubbs and three members of the Board of Directors (Yewdall, Brigstocke and Sanji Arisawa) participated in the placing.

On 23 March 2017, the Company announced an agreement with Arisawa Manufacturing Company, the largest shareholder, to extend a secured line of credit for up to $750,000. The interest rate is 10% per annum paid quarterly in arrears. The loan is secured against future licensing revenues from the Company's stereoscopic 3D patent library.

The Group's published press announcements can be found on the Group's website at www.dddgroupplc.com.

26. 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 2016 which comprise the parent company balance sheet, the parent company statement of changes in equity 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), including FRS 101 'Reduced Disclosure Framework'.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 13, 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 2016 and of its loss for the year then ended;
- 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 £9,407,000 during the year ended 31 December 2016 and, at that date, the company had net current liabilities of £2,149,000. 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 parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the parent company was unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the financial statements.
- the Strategic Report and Directors' Report has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and Directors' Report.

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 2016. That report includes an emphasis of matter.

Perry Burton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
Date: 18 May 2017

PARENT COMPANY BALANCE SHEET
At 31 December 2016

	Notes	**31 December 2016 £'000**	31 December 2015 £'000
FIXED ASSETS			
NON CURRENT ASSETS			
Investments in subsidiaries	3	**3,203**	3,940
CURRENT ASSETS			
Debtors	4	**63**	6,805
Cash at bank and at hand		**2**	27
		65	6,832
CURRENT LIABILITIES			
Creditors	5	**(553)**	(266)
Financial liabilities (current portion)	6, 7	**(1,661)**	(539)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,054**	9,967
NON CURRENT LIABILITIES			
Financial liabilities (long-term portion)	7	**(865)**	(387)
NET ASSETS		**189**	9,580
CAPITAL AND RESERVES			
Called up share capital	9	**8,603**	8,603
Share premium account	9	**11,625**	11,625
Share based payment reserves		**618**	1,115
Other reserves		**12,843**	12,843
Profit and loss account		**(33,500)**	(24,606)
SHAREHOLDERS' FUNDS		**189**	9,580

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

The financial statements were approved by the board of Directors on 18 May 2017 and signed on its behalf by:

Christopher Yewdall
Chief Executive Officer
Company number: 04271085

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	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 2015	**8,134**	**11,244**	**1,190**	**12,843**	**(10,611)**	**22,800**
Share issuances	469	381	--	--	--	850
Loss for the year	--	--	--	--	(14,095)	(14,095)
Share based payments – share options	--	--	25	--	--	25
Share based payment reserve transfer	--	--	(100)	--	100	--
At 31 December 2015	**8,603**	**11,625**	**1,115**	**12,843**	**(24,606)**	**9,580**
Loss for the year	--	--	--	--	(9,407)	(9,407)
Share based payments – share options	--	--	16	--	--	16
Share based payment reserve transfer	--	--	(513)	--	513	--
At 31 December 2016	**8,603**	**11,625**	**618**	**12,843**	**(33,500)**	**189**

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

NOTES TO PARENT COMPANY ACCOUNTS

1. ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with applicable accounting standards and in accordance with Financial Reporting Standard 101 – 'Reduced Disclosure Framework' (FRS 101). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have all been applied consistently throughout the year unless otherwise stated.

The financial statements have been prepared on a historical cost basis.

The financial statements are presented in Sterling (£) and have been presented in round thousands (£'000).

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

1. A statement of cash flows and related notes
2. the requirements of IAS 24 related party disclosures to disclose related party transactions entered in to between two or more members of the group as they are wholly owned within the group
3. The effect of future accounting standards not adopted
4. Certain share based payment disclosures
5. Disclosures in relation to impairment of assets
6. Disclosures in respect of financial instruments (other than disclosures required as a result of recording financial instruments at fair value)

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

Going Concern Review:

During the first quarter of 2017, the Company completed an equity placement and received a secured debt working capital loan from its largest shareholder who continues to support the Group during these challenging times. The Directors have prepared cash flow forecasts up to 31 December 2018 which indicate the Group will require access to additional funds by mid-July 2017. To this end, the Group will participate in Court ordered mediation with the objective of securing a settlement to the ongoing litigation claim, and this mediation is scheduled for the end of May. Additionally, the Group is pursuing several commercial options to secure funds including negotiations for new development agreements and/or arranging financing through the parent company from existing shareholders. In addition the group is at early stages of negotiations to secure funding of the GenMe subsidiary from existing or new shareholders.

Furthermore, the Company may require additional funding within the next 12 months if the projections are inaccurate or a change occurs in the market. The forecast revenue in the cash flow includes estimates of existing contracts which include assumptions regarding the number of shipments and the level of consumer take-up/purchase rates and new revenue streams arising from contracts which are in the final negotiation phase; however there remains uncertainty that contract negotiations will be finalised or performance will be as expected. If there are material adverse variances against these forecasts, the Company would need to implement further mitigating actions to manage cash resources.

It is also anticipated that the some or all of the secured and convertible debt will require a further extension to their expiration terms, which are currently due in early 2018. The Company has put a resolution to shareholders to re-price the convertible loan notes as consideration for the flexibility afforded to the Company by the loan note holders

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.

NOTES TO PARENT COMPANY 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.

Debtors
Trade receivables, loans and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as loans and receivables. Such assets are measured at fair value on initial recognition and are subsequently measured at amortised cost using the effective interest rate method unless there is objective evidence that an asset is impaired, when it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense.

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.

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.

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.

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 recognized loss for the year ended 31 December 2016 was £9,407,000 (2015: loss of £14,095,000). 2016 includes an £11,911,000 impairment provision increase for the investment in subsidiaries and subsidiary loan notes as described in Notes 3 and 4 below.

NOTES TO PARENT COMPANY ACCOUNTS

3. FIXED ASSET INVESTMENTS

	31 December 2016 £000	31 December 2015 £000
Investment in subsidiary undertakings		
Cost		
Historical cost	**15,503**	12,970
Additions	**1,557**	2,533
Impairment provision	**(13,857)**	(11,563)
Net book value	**3,203**	3,940

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.

The Company carefully assessed the carrying value utilising a 2 year discounted EBITDA cash flow (EBITDA) forecasts of the Group under two varying scenarios (expected and conservative cases). Both scenarios include analysis of the existing 3D business as well as the 2D consumer products discussed in the Strategic Report. It is also anticipated that licensing revenues may come from the IP assertion program described in the Strategic Report. The timing and quantum of revenues, profit and cash flows from the growth in the 2D products is inherently less certain than those from the existing 3D 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 2017. Under the 2 year discounted EBITDA approach (using a 9% discount rate, and 2% terminal growth rates on the 2D business) the carrying values were supported in the expected and conservative case models. However, given the current emphasis of the business on the 2D operations and the market capitalisation of the Company, the Board finds it prudent to record an additional impairment against the investment in subsidiary balance for amounts invested from 2012 – 2015, excluding the investment in the GenMe subsidiary. The Board will continue to reassess the impairment regularly.

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
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.

NOTES TO PARENT COMPANY ACCOUNTS

4. DEBTORS

	2016 £000	2015 £000
Amounts falling due within one year		
Accounts Receivable	**56**	9
Prepayments	**7**	18
Total Other Assets	**63**	27
Interest bearing notes receivable from subsidiaries:[1]		
DDD USA	**720**	--
DDD Research	**610**	--
DDD IP Ventures	**15**	--
	1,345	--
Non-interest bearing Notes receivable from subsidiaries:[2]		
DDD USA Inc.	**10,145**	8,854
DDD Australia	**2,767**	2,528
DDD Research	**1,360**	1,396
	14,272	12,778
Impairment provision	**(15,617)**	(6,000)
Total notes receivable from subsidiaries	**--**	6,778
Total Debtors balance	**63**	6,805

[1]The secured debt received from Arisawa, discussed in Note 6, was used to lend into the subsidiaries to fund operations. The loans are denominated in USD and retranslated to Pounds Sterling at each reporting date. These loans carry the same interest as the parent loan agreement (10% per annum) and are payable upon request. Payments totalling USD $43,000 were credited against the loans during 2016. The remaining balance change is solely as a result of foreign exchange fluctuations.

[2]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. Payments totalling CAD$2,552,000 were credited during the period (2015: CAD$3,364,000), the remaining balance change is solely as a result of foreign exchange fluctuations.

A thorough review of the capability of the subsidiaries to repay the debt in the short-term was conducted. The impairment reserve has been increased by £9,617,000 through the profit and loss account for a total of £15,617,000 at 31 December 2016 (2015: £6,000,000).

5. CREDITORS

	2016 £000	2015 £000
Trade creditors	**86**	6
Accruals	**467**	260
	553	266

6. SECURED LOAN AGREEMENTS

	2016 £000	2015 £000
Opening balance	**--**	--
Value of Notes on issuance in the period	**1,436**	--
Value of payments credited in the period	**--**	--
Foreign exchange	**225**	--
Closing balance (Current debt)	**1,661**	**--**

Refer to Note 15 in the Group accounts for further details.

NOTES TO PARENT COMPANY ACCOUNTS

7. CONVERTIBLE LOAN NOTES

	2016 £000	2015 £000
Opening balance	**926**	587
Value of Notes on issuance in the period	**--**	350
Finance charges during the year	**(61)**	(11)
Financial liability element of loan notes	**865**	926
Current portion:		
2014 Notes (originally due January 2016)	**--**	539
Long-term portion:		
2014 Notes (currently due January 2018)[1]	**523**	--
2015 Notes (currently due March 2018)[1]	**342**	387
Total financial liability element of loan notes	**865**	926

[1] During December 2016, the Company authorised a noteholder resolution to extend both sets of notes for twelve (12) months at which time any outstanding notes will, at the option of the Company, be repaid in cash or settled by the issue of Shares at the conversion price.

Refer to Note 16 in the Group accounts for further details.

8. DIRECTORS' REMUNERATION

	2016 £'000	2015 £'000
Wages and salaries	**141**	157
Share based payments	**--**	18
National Insurance/Social Security contributions	**8**	8
	149	183

The amounts above are the total earned director fees during the period. As discussed in Note 5 to the consolidated financial statements, the Directors agreed to defer their director fee compensation in 2015 and 2016 until such time as the Group exceeds the financial models. Total deferred director fees for the year were £140,500 (2015: £151,500) plus the related national insurance contributions given that no payments were made.

Share based payments recognised in this note are solely share option expense related to any non-executive directors of the parent Company and are a subset of the total share based payment expense referenced in Note 10 below with additional detail in Note 20 of the Group accounts. All Group director fees are paid by the parent Company.

NOTES TO PARENT COMPANY ACCOUNTS

9. SHARE CAPITAL

	Shares	Nominal value £'000	Premium net of costs £'000	Total £'000
Deferred shares (par 9p)				
In issue 1 January & 31 December 2015 and 31 December 2016	74,416,547	6,698	--	6,698
Ordinary shares (par 1p)				
In issue 1 January 2015	143,663,572	1,436	11,244	12,680
Share placing (Mar 2015)	22,500,000	225	169	394
Share placing (Sept 2015)	24,425,000	244	212	456
In issue 31 December 2016 & 2015	190,588,572	1,905	11,625	13,530
All shares				
In issue 31 December 2016 & 2015	**265,005,119**	**8,603**	**11,625**	**20,228**

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 9 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 21 of the consolidated Group financial statements.

10. SHARE BASED PAYMENTS

Refer to Note 20 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 £16,000 (2015: £25,000) related to equity-settled share based payment transactions during the year.

11. RELATED PARTY TRANSACTIONS

Please refer to Note 24 in the Group accounts for all external transactions.

12. POST BALANCE SHEET EVENTS

Please refer to Note 25 in the Group accounts.

SHARE CAPITAL:

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

Ordinary 1p	190,588,572
Deferred 9p	74,416,547
Total	265,005,119

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04271085

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Chief Executive Officer

Dr. Julien Flack
Chief Technology Officer

Ms. Victoria L. Stull
Chief Financial Officer

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