

25 May 2007

## **DDD GROUP PLC**

### **2006 ANNUAL REPORT AND ACCOUNTS AND NOTICE OF AGM**

DDD Group plc (the "Company") announces that it is today posting the Annual Report and Accounts for the financial year ending 31 December 2006. The Company is also posting a circular containing a Notice of AGM convening the AGM to be held at 9:00 a.m. on Tuesday 19 June 2007 at 3 More London, Riverside, London SE1 2AQ (the "Circular"). Copies of the Annual Report and Accounts and the Circular may be requested directly from the Company and are also available at the Company's registered office, 22 Melton Street, London NW1 2BW.

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#### **CHAIRMAN'S STATEMENT**

The year 2006 held particularly great promise. It is therefore a commensurate disappointment to have to report that revenues, reasonably anticipated by your company, have been delayed for reasons over which DDD has had no control.

Notwithstanding this situation, DDD has made substantial progress in broadening its ability to address additional 3D platforms, as detailed by CEO Chris Yewdall in his report to shareholders.

DDD has been very active in working with prospective commercial partners with a view towards generating substantial development, licensing and content related revenues. The company's prospective partners include major consumer electronics firms, telecommunications carriers, content creators and aggregators and complementary software partners. DDD's market-ready technologies are now easily adapted to the commercial requirements of the marketplace.

The technical team has again excelled by delivering innovative and practical solutions to very demanding technical specifications. DDD's technical capabilities are increasingly known and respected throughout the 3D industry.

The business development team has performed admirably in strategising, initiating and handling a growing level of interest and inquiries with the aim of generating earnings to increase the market value of the company.

The major shareholders, in particular Arisawa Manufacturing Co., Ltd. ("Arisawa"), have continued to support DDD in many ways, not least as lead investors in the February and December 2006 capital raisings. This support has been vital to DDD and I wish to express to Arisawa, and the other investors, the sincere thanks of the directors and executive management for the confidence that has been expressed in such a tangible fashion.

There is a rapidly growing understanding among industry participants that 3D is the next frontier in consumer entertainment. Television has gone through the digital transition, flat screens dominate sales and high-definition displays are demonstrating that consumers are receptive to advancements in technology. All of these developments suggest that 3D will become commonplace in major markets, from mobile phones to laptops to TV sets and 3D digital cinemas.

The Board believes that DDD has a unique opportunity, and corresponding challenge, to deploy its leading technologies across the relevant technological platforms, so that its depth map encoding / decoding software system becomes an accepted standard for creation, encoding, transmission and display of 3D content.

DDD has again carefully managed its finances and productivity. It is now important for our company to generate the revenues that DDD's leading technologies should readily enable. All efforts of the company are directed towards this outcome.

My thanks go to my fellow directors for their contribution during the year. On behalf of the Board, I would like to express our deep appreciation to both management and staff for their dedication, enthusiasm and plain hard work.

## **CHIEF EXECUTIVE'S REPORT**

2006 was a year of measured growth in the 3D industry as the new markets that emerged in 2005 developed at a modest rate. As the company confirmed in September 2006, DDD's mobile phone licensee experienced further delays in the launch of their 3D mobile phone in order to incorporate a higher quality 3D display in a slimmer phone which has further delayed per handset royalties and anticipated mobile content revenues for DDD. This had a negative effect on full-year revenues for 2006 as development and licensing revenues failed to materialise from the additional mobile phone development and licensing agreements that were anticipated.

On learning of the postponement of the 3D mobile phone launch, DDD acted quickly to mitigate the medium-term risk to the company's growth in the mobile phone market. This included the development of a prototype 3D mobile phone that has allowed DDD to actively pursue the various international mobile carriers with a compelling business case for introducing 3D to their subscribers.

DDD expects to benefit from the continued growth in the 3D cinema market. Sony Columbia and Disney released two new 3D films during 2006. Both *Monster House* and *The Nightmare Before Christmas* performed well in the box office, garnering further support from the Hollywood studios to produce more 3D movies. The company began to undertake 2D to 3D conversion tests for both animated and live action Hollywood materials in the second half of the year. The objective is to ensure that DDD's 2D to 3D movie conversion tools achieve the necessary level of image quality and productivity. Based on the anticipated growth of 3D cinema screens, DDD believes that by late 2007, there will be sufficient 3D cinema screens for the box office revenues to generate a viable return on investment for 2D to 3D movie conversion projects.

The increasing popularity of 3D movies is also encouraging consumer electronics companies to find innovative ways to bring the 3D movie-going experience to the home theater and television. At the January 2007 Consumer Electronics Show ("CES"), Syntax-Brilliant Corporation demonstrated a 32" Olevia™ 3D LCD TV based on Arisawa's polarized material together with DDD's TriDef suite of 3D content solutions. A number of other well-known companies including Texas Instruments, Samsung Electronics, LG Electronics and Philips also demonstrated a variety of 3D flat screen and rear projection TVs during CES.

In May 2006, in conjunction with Texas Instruments' Wireless group and Oxford-based Ocuity Limited, the company developed a prototype 3D mobile phone capable of demonstrating the full capabilities of DDD Mobile™. Texas Instruments demonstrated the 3D prototype phone internationally at the Japan Wireless conference in Tokyo in July 2006 and more recently at the 3GSM World Congress in Barcelona and the CTIA Wireless Show in Orlando in February and March 2007, respectively.

Assisted by Hans Snook, the business development team undertook a number of presentations of the prototype 3D mobile phone to senior level executives of various international mobile phone operators during the second half of 2006. Response to the prospect of bringing a 'glasses-free' 3D viewing experience to their subscribers was positive and resulted in the completion of a consulting project for one European carrier in December 2006.

Since 3D can be deployed on present day mobile phones through the inclusion of a 3D display and the DDD Mobile software library, the DDD prototype clearly demonstrates the ease with which a 3D equipped mobile phone can be delivered. The discussions with the carriers have centered on how best to harness consumer interest in 3D and the 'wow' factor of the 3D phone. This includes increasing subscriber usage of existing mobile content services like Multimedia Messaging Service ("MMS") and creating differentiation for emerging services such as Mobile TV.

The company believes that demonstrating the 3D phone and explaining the expected increase in a subscriber's usage of their mobile phone will help accelerate the adoption of 3D phones since the carriers will have a clear understanding of where the 3D phone fits within their business.

In October 2006 DDD completed its first mobile 3D content license agreement to provide 3D pictures, animations and movies for the SIM+ card that was introduced by Orange Romania. Several of the images were produced from the Jamba and Jamster! mobile content that was converted to 3D during 2005 and the revenue from these images was shared with Jamba/Jamster!.

The company still expects that the first 3D enabled televisions will be introduced during 2007, yielding development and licensing opportunities for DDD's TriDef 3D content solutions in an additional consumer mass market. In response to the increase in sales of high-definition, flat-panel televisions and the introduction

of HD DVD's, DDD introduced TriDef® Media Player, capable of converting full HD resolution video from 2D to 3D in real-time.

The development of the TriDef Vision+ set top box continued with the objective of delivering an embedded 'in display' solution. Following recent developments in image processing chipsets used in advanced, flat-screen televisions, the company is pursuing the integration of DDD's 3D conversion and image processing capabilities in third party chips. This approach offers the potential for consumer electronics companies to offer 3D enabled flat-screen televisions at little incremental cost using components that are already used in their existing 2D televisions.

A growing installed base of 3D capable television sets will create additional return on investment for the filmmakers and studios that are already considering the conversion of their film libraries to 3D, driving the demand for high-quality 3D conversion tools. In the medium term, the availability of 3D televisions should also catalyse the requirement for efficient delivery of both 2D and 3D versions of the content on DVD or via broadcast.

Historically DDD's business development task has been that of 3D 'evangelist', promoting a well-designed, high quality 3D content solution for a variety of mass-market consumer electronics' platforms. The increasing momentum in the 3D market is changing this approach as prospective customers look to take advantage of the products that DDD has successfully delivered to existing customers and licensees for mobile phones, personal computers and televisions. As the 3D market grows, the company expects to expand the number of consumer devices in which the TriDef and DDD Mobile solutions are deployed, thereby reducing the dependence on any one single market as was the case in 2006.

DDD's team of dedicated staff has continued to deliver market-leading solutions and develop lasting commercial relationships, which should enable the company to fulfill its potential. DDD remains fortunate that it has maintained a dedicated and talented staff from which the company can continue to successfully meet increasingly complex technical and commercial challenges.

Finally, I would like to thank our shareholders for their continued support during the year, and look forward to a very promising future for the 3D market in which DDD intends to play its part.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December	<b>2006</b> <b>£'000</b>	Restated 2005 £'000
<b>Turnover</b>	<b>305</b>	747
Administrative expenses	<b>(2,103)</b>	(1,862)
<b>Operating loss</b>	<b>(1,798)</b>	(1,115)
Net interest	<b>18</b>	29
<b>Loss on ordinary activities before taxation</b>	<b>(1,780)</b>	(1,086)
Tax charge on loss on ordinary activities	<b>(8)</b>	(74)
<b>Loss for the financial year</b>	<b>(1,788)</b>	(1,160)
Basic loss per share	<b>(3.1p)</b>	(2.5p)

All transactions arose from continuing operations.

## CONSOLIDATED BALANCE SHEET

As at 31 December	<b>2006</b> <b>£'000</b>	Restated 2005 £'000
<b>Fixed assets</b>		

Intangible assets	-	10
Tangible assets	54	85
	<u>54</u>	<u>95</u>
<b>Current assets</b>		
Debtors	127	202
Investment in a money market deposit	-	76
Cash at bank and in hand	1,467	210
	<u>1,594</u>	<u>488</u>
<b>Creditors</b>	<u>(163)</u>	<u>(110)</u>
<b>Net current assets</b>	<u>1,431</u>	<u>378</u>
<b>Net assets</b>	<u>1,485</u>	<u>473</u>
<b>Capital and reserves</b>		
Called up share capital	7,442	4,657
Share premium account	4,612	4,690
Merger reserve	13,279	13,279
Other reserve	274	229
Exchange equalisation reserve	(494)	(418)
Profit and loss account	(23,628)	(21,964)
<b>Shareholders' funds</b>	<u>1,485</u>	<u>473</u>

## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December	2006 £'000	2005 £'000
<b>Net cash outflow from operating activities</b>	<b>(1,527)</b>	<b>(1,103)</b>
<b>Returns on investments</b>		
Interest received	18	29
<b>Net cash inflow from returns on investments</b>	<u>18</u>	<u>29</u>
<b>Taxation</b>		
Foreign withholding taxes paid	(8)	(74)
<b>Net cash outflow from taxation</b>	<u>(8)</u>	<u>(74)</u>
<b>Capital expenditure</b>		
Purchase of tangible fixed assets	(9)	(68)
Sale of tangible fixed assets	-	26
<b>Net cash outflow from capital expenditure</b>	<u>(9)</u>	<u>(42)</u>
<b>Management of liquid resources</b>		
Investment in money market deposits	(473)	(76)
Sale of money market deposits	549	-
Sale of short-term bank deposit	-	47
<b>Net cash inflow/(outflow) from management of liquid resources</b>	<u>76</u>	<u>(29)</u>
<b>Financing</b>		
Issue of shares	2,900	-
Expenses paid in connection with issue of shares	(193)	-
<b>Net cash inflow from financing</b>	<u>2,707</u>	<u>-</u>

Increase/(decrease) in cash

**1,257**

**(1,219)**

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**NOTE TO THE ANNOUNCEMENT**

The Group has applied the requirements of Financial Reporting Standard 20 ("FRS 20"), *Share Based Payments*, in accordance with the transitional provisions, to all equity instruments granted after 7 November 2002 that had not vested as of 1 January 2006. As a result, certain amounts have been restated as at 31 December 2005 and for the year then ended.

The financial information set out in this announcement does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985.

This announcement includes extracts from the audited statutory accounts for the year to 31 December 2006. The comparative figures relating to the year to 31 December 2005 are taken from the audited statutory accounts for that year, except as noted above in relation to the FRS 20 restatement.