

28 September 2007

## DDD GROUP PLC

### UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

DDD Group plc ("DDD" or "the Company"), the 3D software and content company, announces its unaudited interim results for the six months ended 30 June 2007.

#### Highlights

##### Financial

- Turnover of £91,000 (2006: £146,000)
- Loss before tax of £743,000 (2006 restated: £1,002,000)
- Loss before tax, net of IFRS2 (share based payments) implementation of £728,000 (2006 restated: £886,000)
- Net cash outflow from operating activities of £600,000 (2006 restated: £717,000)
- Net cash as at 30 June 2007 of £722,000 (2006: £625,000)

##### Operational

- Manufacture of Samsung SCH-B710 3D Mobile phone commenced in Korea resulting in advance royalty payment to DDD for DDD Mobile software that is included on each mobile telephone handset
- Developed 3D game conversion solution allowing existing PC video games to be played in 3D on the emerging range of consumer-priced 3D displays
- Development of the TriDef 3D Experience content solution for consumer 3D television and desktop PC displays

#### Subsequent to the period end - highlights

- South Korea Telecom (SKT) launched Samsung 3D mobile telephone in Korea
- Samsung America selected the TriDef 3D Experience as the gaming and video content solution for their 3-D ready DLP® HDTVs that are now available in North American retail stores.

#### Paul Kristensen, Chairman of DDD Group plc commented:

"It was pleasing to finally confirm that the Mobile Communications division of Samsung Electronics is the licensee with whom DDD has been working to deliver the next generation of 3D mobile telephones. Samsung's 3D mobile phone was launched at the beginning of July by SKT, a leading Korean mobile telephone operator, resulting in the first royalties for DDD from a mass-market hand-held consumer product.

In the first half of the year, the company focused its development efforts on the 3D Television market, taking advantage of various breakthroughs, including the demonstration by Texas Instruments of their 3-D enabled DLP® HDTV rear projection television. In anticipation of 3D achieving substantial impact in the consumer TV market, DDD extended the range of 3D entertainment experiences that are enabled by our technology to include full High Definition 3D video as well as interactive gaming for the personal computer.

This has resulted in Samsung selecting DDD's TriDef 3D Experience as the 3D gaming and video accessory solution for their range of 3-D ready DLP HDTVs. This was announced in early September and we expect that the TriDef 3D Experience will be available from select leading US consumer electronics retailers from late September as well as online from DDD's website store.

Samsung's range of 3-D ready DLP HDTVs mark the arrival of the first affordable, high-quality 3D televisions that offer both 2D and 3D capabilities at the price of a 2D TV set. DLP HDTVs now account for 63% of the market share in rear projection televisions with Samsung being the number one selling brand worldwide\*.

Marking a key milestone in the company's history, DDD is now actively engaged in delivering solutions for a range of entertainment experiences for the consumer 3D Television market. In addition to the Samsung 3-D ready DLP HDTVs that are available in North America, the company is actively involved in development projects intended to bring DDD's solutions to additional types of flat panel 3D TV displays for use in international markets. Our objective is to embed DDD's comprehensive 3D image processing solution in chipsets, built into the display itself for these next generation 3D TVs. This should generate substantial opportunities for further development contracts, licensing and royalty revenues.

Recognising that these new 3D TVs should deliver an increased consumer demand for 3D content, DDD has also delivered a high performance 3D conversion toolkit that blends the depth recovery capabilities of our proprietary real time 3D conversion with the postproduction capabilities of our offline 3D conversion software tools. This has substantially improved the productivity of 2D to 3D conversion for both standard and high definition media while dramatically reducing the cost of conversion. The tools were delivered to our first conversion licensee in September and have also been used to deliver a 3D "Halloween Special" that will be broadcast on a leading US cable TV channel in October.

In summary, during the first half of this year, the necessary solutions were developed that have allowed DDD to address not only the 3D mobile phone market but also the emerging significant mass consumer market for 3D HDTV displays. An increasing number of studios are committed to making high quality 3D movies available and this is fuelling interest with consumer electronics manufacturers to deliver the 3D experience at home. DDD is now well positioned to capitalise on these opportunities and in doing so, to create meaningful licensing and royalty revenues.

*\*(source: DisplaySearch Quarterly Global TV Shipment and Forecast Report, August 2007)*

## **Operational update**

- Executive Summary

With the growing commitment from major Hollywood studios including Walt Disney Pictures, DreamWorks, Sony Columbia and film makers including James Cameron and Robert Zemeckis, an increased amount of focus is now being placed on how this high quality 3D content can be brought to the home.

Consumer electronics companies including Samsung and Mitsubishi have clearly demonstrated their commitment to bringing 3D to their customers through delivering 3D ready rear projection HDTVs in the US market and 3D capable mobile telephones in Korea this year.

With support from major studios and consumer electronics companies, 3D has gained a high profile during 2007 and DDD is well positioned to capitalise on the emerging opportunities in these markets as was demonstrated in early September when the TriDef 3D Experience was selected by Samsung as the video and gaming content solution for their new 3D ready HDTVs.

DDD's high quality real time 2D to 3D conversion solution is viewed as a key requirement since it assures consumers that 3D content will be available to view on their 3D ready HDTVs. DDD's

real time 3D conversion is complemented by the ability to play back conventional 3D movie formats, yielding a comprehensive solution for consumer electronics companies and studios alike.

The Company is already engaged in development projects for next generation 3D TVs that are intended to deliver these 3D features within the TV itself. As was the case with the mobile market, these projects are expected to yield development, licensing and royalty revenues to the company.

The Company has also improved the performance of the 2D to 3D conversion process by combining the real time 3D image analysis with the existing postproduction 3D conversion tools. The TriDef Media Creator 3D conversion tools are being used to convert broadcast quality content at cost effective prices and are now being licensed to third parties. This approach broadens the revenue available to the Company from 3D conversion to include service fees, software licenses and royalties from the ongoing use of the conversion tools by third party licensees.

With the level of interest associated with the emerging 3D Television market, the company is placing increased business development and technical resources on securing additional customers in this segment since the 3DTV market is likely to develop at a quicker pace than the 3D mobile phone market.

- Business Review

DDD is presently pursuing the adoption of its patented software, hardware and content conversion/creation solutions on four main platforms as follows:

*Consumer Television*, refers to large flat screen HDTV displays being developed and marketed by major consumer electronics companies where DDD's real-time 2D to 3D content conversion solution is expected to provide an important bridge towards mass-market consumer adoption of 3D capable televisions.

*Consumer Handheld Devices*, refers to the emerging market for 3D mobile telephones, personal digital assistants ("PDAs") and personal media players ("PMPs") where the DDD Mobile™ suite of software can be used to convert, present, download and share popular mobile content such as wallpapers, animations and video in glasses-free 3D.

*Desktop PC Displays*, refers primarily to business users, government agencies and universities who use 3D displays, and DDD's related software, to enhance visual data in the medical, pharmaceutical, education, oil & gas and manufacturing sectors.

*3D Conversion*, refers to the process of using DDD's content conversion solution to convert existing 2D productions to 3D and supplement existing 3D content production techniques.

- Consumer Television

In September, DDD announced the availability of the TriDef 3D Experience for Samsung's range of 3D ready DLP HDTVs that are available in US retail stores. DDD's 3D HDTV video solution was also demonstrated by Texas Instruments at the IFA show in Berlin in early September. The TriDef 3D Experience is available in select retail stores as well as through DDD's online website store.

Priced at \$199.99, the TriDef 3D Experience provides a comprehensive 3D gaming and video entertainment experience and includes the following capabilities:

- Playback of 3D DVD movies and real time 2D to 3D conversion of 2D DVD movies. This feature allows existing Hollywood and IMAX® 3D DVDs to be played on the 3D HDTVs.
- Playback of 3D PC standard and high definition movie files, including real time 2D to 3D conversion. This allows Hollywood studios to make high quality 3D movie trailers and excerpts available for download and viewing on the 3D HDTVs.

- Automatic 2D to 3D conversion of popular PC games including The Sims 2, Madden NFL 08 and Quake 4.

The TriDef 3D Experience will initially be made available via Samsung in select US retailers to ensure that the demonstration and sales process for the 3D experience can be refined before the product is made available in a larger number of stores. Since the Samsung 3D ready HDTV requires the customer to connect a PC to their TV set, the expectation is that this first generation TV set will be targeted towards early adopters.

Customers wanting to play games in 3D pay \$4.95 for each supported game title they wish to convert to 3D. This provides an incremental revenue from TriDef 3D Experience customers for every new game they activate in 3D.

The Company has continued the 3D TV development efforts with Arisawa Manufacturing in Japan. During the first half of 2007 a custom circuit board was developed based on the TriDef Vision+. The first milestone was achieved in September when the board was integrated with a 46" HD LCD TV manufactured by one of Arisawa's partners. The goal of this development project is to deliver a range of 3D enabled LCD TVs aimed at emerging markets for 3D broadcast television in Asia.

One of the key trends that is enabling the delivery of 3D television is the migration to high speed plasma and LCD screens. These new displays operate at twice the speed of a conventional TV, yielding smoother pictures for both DVD movies and games. Following this trend, the Company has also identified additional development and licensing opportunities in the 3D Television market whereby DDD's real time 2D to 3D conversion capabilities are likely to be embedded onto the image processing chips used within these next generation 3D flat panel HDTVs.

In the near term, the Company expects to secure additional agreements in the emerging 3D television market that yield one-time development revenues and enable ongoing licensing and royalty revenues over the lifetime of the license agreement. Over time, it is expected that the embedded approach will replace the video capabilities of the current TriDef 3D Experience software products, simplifying the end-user experience through removing the need for a PC to be connected to the 3D HDTV.

In conjunction with these development activities, the Company is also actively engaged in discussions with the Hollywood studios to ensure that DDD's embedded 3D HDTV architecture can be used to enable the delivery of the latest 3D movies on standard and high definition DVD disc.

- Consumer Handheld Devices

In July, Samsung introduced the SCH-B710 3D mobile telephone in Korea. The handset was introduced by South Korea Telecom, a leading Korean mobile operator. This was an important milestone for two reasons:

- The Samsung mobile telephone is the first consumer product that uses DDD's proprietary 3D content solutions under license.
- The launch of a 3D mobile phone by the world's third largest handset supplier reassures mobile operators that major partners are supporting the 3D mobile experience.

The DDD Mobile license to Samsung for the SCH-B710 performs real time 3D conversion of incoming satellite and terrestrial mobile TV signals. DDD receives a royalty for each handset manufactured that includes DDD's software library. On commencement of manufacture in June a £50,000 advance royalty payment became payable.

Following the introduction of the 3D handset in July, DDD is now seeking to secure a content supply arrangement to allow the company to participate in the revenues from the download of premium 3D content by the handset owners.

Since the features of the Samsung 3D mobile telephone are specific to the mobile communications infrastructure in South Korea, the SCH-B710 will only be available in South Korea.

Following DDD's presentations to several mobile phone operators, it became clear that their decision to include 3D mobile phones and services in their plans hinged on the delivery of a 3D handset by a recognised manufacturer. Following the introduction of Samsung's 3D handset in July, a number of international operators are now considering how best to bring this feature to their subscribers. Due to the lead times involved in developing a 3D handset, it is unlikely that additional launches will take place outside Korea until 2008.

As has been the case, the company will continue to seek additional development, licensing and royalty opportunities in this segment from handset makers and will endeavour to secure ongoing revenue streams through participating in the delivery of premium 3D content to 3D subscribers.

- Desktop PC Displays

DDD continues to resell desktop 3D displays and additional TriDef software applications to international business users. In the first half, DDD sold the last of the Sharp AL3D notebook PCs and shifted focus to desktop PC displays. In June, Hyundai IT introduced a 24" high resolution PC 3D display based on Arisawa's optical solution that uses similar 3D glasses to those used in digital cinema.

The new 24" Hyundai IT/Arisawa display has been very well received since it yields high quality images that are ideally suited to scientific use and is very competitively priced at \$1,999. Due to the price and performance, we have also seen interest from the artists who are creating the latest 3D Hollywood movies and orders have been received from both Pixar and DreamWorks for these new 3D displays.

Prior to the year-end, the company plans to include support for this new PC display in the TriDef 3D Experience, extending the market to include entertainment applications such as PC gaming.

- 3D Conversion

As part of the ongoing development of the Company's 3D conversion solution, The TriDef Media Creator was delivered in June, combining the high performance depth calculations of DDD's real time 2D to 3D conversion, with the 3D editing tools of the postproduction solution.

This has been developed in response to the emerging market for 3D television that has less demanding criteria than the 3D digital cinema market and will demand higher volumes of 3D content at competitive prices.

In July, DDD secured its first 3D TV conversion project for a Halloween Special that will be broadcast during October on a leading US cable TV channel. The broadcast will be made in red/blue 3D since it will be viewed on normal television sets.

In September, the Company also licensed the TriDef Media Creator toolkit to a Japan-based 3D content production company, marking the first third party licensee for the Company's 3D conversion tools. In this arrangement, DDD will receive a royalty based on the amount of paid conversion work undertaken by the licensee.

The Company intends to continue to perform 2D to 3D conversion as a paid service and to closely monitor the opportunities in both 3D television and 3D Digital Cinema to ensure that DDD is best positioned to maximise commercial opportunities in these segments.

## NOTES TO EDITORS

DDD, also known as Dynamic Digital Depth, is transforming the viewing experience with applications for 3D displays. Its patented technologies enable 3D viewing with and without glasses; simple integration of computer graphics applications with 3D displays; supply of 3D content through 2D to 3D conversion; and 3D transmission over existing networks. DDD is quoted on AIM, a market operated by the London Stock Exchange (AIM: DDD).

### Background

- A new category of flat screen LCD, plasma and Digital Light Projection (DLP) rear projection displays are being developed and marketed by major consumer electronics companies that provide stereoscopic 3D images both with and without the need for the viewer to wear glasses. Stereoscopic 3D images appear to have natural in and off-screen depth. 3D displays have already been included in mobile phones in Japan and Korea, in desktop PC displays and notebook computers in North America and Japan and in DLP rear projection televisions in North America.
- DDD's solutions provide an important bridge between conventional two-dimensional (2D) software applications and content and the new 3D displays. Normal 2D pictures, video and computer graphics images are manipulated by DDD's patented software enabling them to be displayed on 3D displays without requiring the content to be created specially for a 3D display. DDD's solutions also enable automatic conversion of virtually any media from 2D to 3D without any pre-processing of the 2D image.
- DDD licenses these software applications, marketed under the TriDef® and DDD Mobile™ brand names, to consumer electronics manufacturers for inclusion with the 3D display products supplied to their end users. DDD also licenses its software directly to end users who already own 3D displays and through an international sales channel. DDD's customers include Sharp Corporation, Samsung Electronics and Arisawa Manufacturing Company.

### Television

- In September 2007, Samsung America announced that DDD's TriDef 3D Experience software solution had been selected as the basis for 3D gaming and movie entertainment for Samsung's range of glasses-based 3-D ready DLP rear projection HDTVs that are available from US retailers.
- In September 2004, DDD entered into a hardware development agreement with Arisawa for the TriDef Vision+ 3D set top box. DDD's set top box, combined with Arisawa's polarising materials applied to a large LCD television, allows for the real-time conversion of virtually any media from 2D to 3D for viewing on the switchable 2D/3D television. DDD and Arisawa intend to license this solution to global television manufacturers.

### Mobile Phone

- In July, 2007 Samsung released the SCH-B710 'glasses-free' 3D mobile telephone in South Korea. DDD entered into a development and license agreement with Samsung Electronics allowing Samsung to include DDD's 3D mobile telephone software solution in Samsung's SCH-B710 3D mobile telephone. The license agreement yields a royalty to DDD for each handset manufactured. Samsung renewed its exclusive rights for DDD's real time 2D to 3D conversion capabilities for use on 3D mobile phones in Korea in October 2006.
- In July 2005, DDD entered into a two-year, non-exclusive, DDD Mobile software licensing agreement and a development agreement with Samsung for a second-generation, glasses-free 3D mobile phone.
- DDD expects to license its DDD Mobile software library to additional mobile phone manufacturers who wish to include 3D LCD displays in a variety of wireless devices, including next generation smartphones and PDAs. The licensing arrangements are expected to yield

per unit royalties. These projects may also include one-time development fees for assisting the manufacturer with the integration of DDD's software into the 3D wireless device.

#### Mobile Content

- In July 2005, DDD entered into a memorandum of understanding with Jamster! for the 2D to 3D conversion of images and animations from Jamster!'s mobile content library using DDD's offline content conversion process for subsequent download by 3D mobile phone owners.
- DDD intends to enter into revenue sharing agreements with mobile phone network operators (carriers) and content providers for the conversion and delivery of existing libraries of premium wallpaper, animations and movies to wireless subscribers who download 3D content that has been converted from 2D to 3D by DDD.

#### Desktop PC

- In September 2003, DDD entered into a three-year, non-exclusive software licensing agreement with Sharp which allows them to include five of DDD's 3D software applications with their Actius range of switchable 2D/3D notebook PCs sold in Japan and North America.

### **FURTHER INFORMATION**

Further information on DDD Group plc, its markets and products is available at [www.DDD.com](http://www.DDD.com) and through the online store at [www.DDD.com/store/dddstore.html](http://www.DDD.com/store/dddstore.html)

### **ENQUIRIES**

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**DDD GROUP PLC****CONDENSED CONSOLIDATED INCOME STATEMENT**

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		6 months to 30 June 2007 £'000 unaudited	Restated 6 months to 30 June 2006 £'000 unaudited	Restated 12 months to 31 Dec 2006 £'000 unaudited
	Notes			
Revenue		91	146	305
Cost of sales		(37)	-	-
Gross profit		54	146	305
Administration expenses		(813)	(1,041)	(1,882)
Other income		9	-	-
Share based payment		(15)	(116)	(169)
Operating loss		(765)	(1,011)	(1,746)
Finance income		22	9	18
Finance expense		-	-	-
Loss before tax		(743)	(1,002)	(1,728)
Taxation		(6)	(8)	(24)
Loss for the period		(749)	(1,010)	(1,752)
<b>Loss per share</b>				
Basic and diluted (pence per share)	<b>3</b>	(1.01)	(1.83)	(3.06)

All transactions arose from continuing operations.

**DDD GROUP PLC****CONDENSED CONSOLIDATED BALANCE SHEET**

	30 June 2007 £'000 unaudited	Restated 30 June 2006 £'000 unaudited	Restated 31 Dec 2006 £'000 unaudited
	Notes		
<b>Assets</b>			
Non-current assets			
Property, plant and equipment	54	69	54
Intangible assets	374	330	353
Deposit	1	-	-
Total non-current assets	429	399	407
Current assets			
Trade and other receivables	105	93	127
Inventory	9	-	-
Cash and cash equivalents	722	625	1,467
Total current assets	836	718	1,594
<b>Total assets</b>	<b>1,265</b>	<b>1,117</b>	<b>2,001</b>
<b>Equity and liabilities</b>			
Capital and reserves			
Issued capital	7,442	5,683	7,442
Share premium	4,612	4,722	4,612
Merger reserve	13,279	13,279	13,279
Other reserve	37	209	85
Share based payment reserve	204	136	189
Translation reserve	(61)	64	(76)
Retained earnings	(24,500)	(23,181)	(23,799)
Total equity	1,013	912	1,732
Non-current liabilities			
Deferred tax liabilities	112	98	106
Total non-current liabilities	112	98	106
Current liabilities			
Trade and other payables	140	107	163
Total current liabilities	140	107	163
Total liabilities	252	205	269
<b>Total equity and liabilities</b>	<b>1,265</b>	<b>1,117</b>	<b>2,001</b>

## DDD GROUP PLC

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium £'000	Merger reserve £'000	Option reserve £'000	Other reserve £'000	Foreign exchange £'000	Retained earnings £'000	Total equity £'000
At 1 January 2006	4,657	4,690	13,279	20	209	-	(22,171)	684
Issue of shares	1,026	32						1,058
Equity settled share options				116				116
Total recognised income and expense						64	(1,010)	(946)
<b>At 30 June 2006</b>	<b>5,683</b>	<b>4,722</b>	<b>13,279</b>	<b>136</b>	<b>209</b>	<b>64</b>	<b>(23,181)</b>	<b>912</b>
Issue of shares	1,759	83						1,842
Associated costs		(193)						(193)
Transfer between reserves					(124)		124	-
Equity settled share options				53				53
Total recognised income and expense						(140)	(742)	(882)
<b>At 31 December 2006</b>	<b>7,442</b>	<b>4,612</b>	<b>13,279</b>	<b>189</b>	<b>85</b>	<b>(76)</b>	<b>(23,799)</b>	<b>1,732</b>
Transfer between reserves					(48)		48	-
Equity settled share options				15				15
Total recognised income and expense						15	(749)	(734)
<b>At 30 June 2007</b>	<b>7,442</b>	<b>4,612</b>	<b>13,279</b>	<b>204</b>	<b>37</b>	<b>(61)</b>	<b>(24,500)</b>	<b>1,013</b>

**DDD GROUP PLC****CONDENSED CONSOLIDATED CASH FLOW STATEMENT****Condensed consolidated cash flow statement**

	6 months to 30 June 2007 £'000 unaudited	Restated 6 months to 30 June 2006 £'000 unaudited	Restated 12 months to 31 Dec 2006 £'000 unaudited
	Notes		
<b>Cash flows from operating activities</b>			
Loss for the period	(749)	(1,010)	(1,752)
Finance costs in the income statement	(22)	(9)	(18)
Tax in the income statement	14	8	24
Depreciation of non-current assets	15	17	36
Amortisation	109	57	110
Gain on sale of property, plant & equipment	-	(1)	(1)
Share based payments	15	116	169
Increase in inventory	(9)	-	-
Decrease in trade and other receivables	22	108	75
(Decrease) / increase in trade and other payables	(17)	(12)	53
Net cash used in operations	(622)	(726)	(1,304)
Interest received	22	9	18
Income tax paid	-	-	(8)
Net cash used in operating activities	(600)	(717)	(1,294)
<b>Cash flows from investing activities</b>			
Payments for property plant and equipment	(15)	(4)	(9)
Payments for intangible assets	(130)	(76)	(152)
Sale of property plant & equipment	-	1	1
Net cash used in investing activities	(145)	(79)	(160)
<b>Cash flows from financing activities</b>			
Proceeds from issue of equity shares	-	1,270	2,900
Issue costs	-	(84)	(193)
Net cash generated by financing activities	-	1,186	2,707
Net (decrease) / increase in cash and cash equivalents	(745)	390	1,253
Exchange losses	-	(51)	(72)
Total (decrease) / increase in cash and cash equivalents	(745)	339	1,181
Cash and cash equivalents at the start of the period	1,467	286	286
Cash and cash equivalents at the end of the period	722	625	1,467

## DDD GROUP PLC

### NOTES TO THE INTERIM FINANCIAL INFORMATION

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#### 1. Accounting policies

##### **Basis of preparation**

The unaudited consolidated interim financial information is for the six-month period ended 30 June 2007. It has been prepared in accordance with the accounting policies set out below which are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union (EU) and are effective at 31 December 2007 or are expected to be adopted and effective at 31 December 2007, our first annual reporting date at which we are required to use IFRS accounting standards adopted by the EU. The interim financial information does not include all of the information required for full annual financial statements.

From 1 January 2006 the Group has adopted International Financial Reporting Standards (IFRS) in the preparation of its consolidated financial statements. Comparative financial information previously published under UK Generally Accepted Accounting Principles has been restated on an IFRS basis for the opening balance sheet as at 1 January 2006, interim accounts as at 30 June 2006 and for the year-end 31 December 2006. The change in the Group's reported performance and financial position on adopting IFRS is fully disclosed in these interim consolidated financial statements.

The consolidated financial statements have been prepared under the historical cost convention except for share-based payments that are valued at the date of grant.

The interim financial information has not been audited nor has it been reviewed under Bulletin 99/4 of the Auditing Practices Board. The financial information set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The Group's statutory financial statements for the year ended 31 December 2006 prepared under UK GAAP have been filed with the Registrar of Companies. The auditors report on those financial statements was unqualified and did not contain a statement under Section 237(2) of the Companies Act 1985.

##### **First time adoption**

The opening IFRS balance sheet as at the date of transition on 1 January 2006 has been prepared in accordance with the measurement and recognition rules of IFRS 1 'First time adoption'. The most significant optional exemptions adopted are set out below:-

- a) Cumulative translation differences which exist at the time of the transition can be transferred into the retained earnings and the foreign exchange reserve therefore shows only differences arising after transition (IFRS 1 'First time adoption of IFRS').
- b) Business combinations that occurred before the opening IFRS balance sheet date are exempt from the application of the standard (IFRS 3 'Business Combinations').

##### **Accounting policies**

The principal accounting policies adopted by the Group in conformity with the IFRSs in force at 30 June 2007 and expected to be in force at 31 December 2007 are set out below.

##### **Consolidation**

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of over one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully

## DDD GROUP PLC

### NOTES TO THE INTERIM FINANCIAL INFORMATION

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#### 1. Accounting Policies (continued)

##### **Consolidation (continued)**

consolidated from the date on which control is transferred to the Group. They are deconsolidated on the date control ceases.

The Group uses the purchase method of accounting for the acquisition of a subsidiary. The cost of an acquisition is measured by the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

##### **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 company's functional currency and the Group's presentational currency is Sterling.
- 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 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 are recognised in the income statement.
- c) **Group companies**  
The results and financial position of all Group entities that have a functional currency different from the presentational currency are translated into the presentational currency as follows:
  - Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet.
  - Income and expenses for each income statement are translated at average exchange rates and;
  - All resulting exchange differences are recognised as a separate component of equity.

##### **Income and expense 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 which are provided on an agreed time basis. VAT or similar local taxes and trade discounts are excluded.

Interest income and expenditure are reported on an accruals basis. Dividends received, other than those from investments in associates, are recognised at the time of their distribution.

## DDD GROUP PLC

### NOTES TO THE INTERIM FINANCIAL INFORMATION

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#### 1. Accounting Policies (continued)

##### **Income and expense recognition (continued)**

Operating expenses are recognised in the income statement 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.

##### **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
- 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 the income statement in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses.

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 and fittings	3 to 7 years

##### **Financial assets**

Financial assets consist of cash and financial instruments. Financial instruments are sub divided into receivables and prepaid expenses.

## DDD GROUP PLC

### NOTES TO THE INTERIM FINANCIAL INFORMATION

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#### 1. Accounting Policies (continued)

##### **Financial assets (continued)**

Derecognition 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 balance sheet date whether or not there is objective evidence that a financial asset or a Group of financial assets is impaired.

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in the profit and loss when received, regardless of how the related carrying amount of financial assets is measured.

##### **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 the income statement.

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

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

##### **Income taxes**

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

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amount of assets and liabilities in the consolidated financial statements with their respective tax bases.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

##### **Cash and cash equivalents**

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

##### **Provisions, contingent liabilities and contingent assets**

Other provisions are recognised when the present obligations arising from legal or constructive commitment resulting from past events, will probably lead to an outflow of economic resources from the Group which can be estimated reliably.

## 1. Accounting Policies (continued)

### **Provisions, contingent liabilities and contingent assets (continued)**

Provisions are measured at the present value of the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

### **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 the average middle market price of the Group's shares over the five dealing days prior to the date of grant. 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. Furthermore, if an option holder leaves the Group before their options vest, the unexercised and unvested options are forfeited six months after the date of their departure.

The Group has a historical share option scheme wherein all of the related options vested on or before 27 September 2004. The Group also has a newly formed share option scheme under which options have been granted on various dates between 12 November 2003 and 6 July 2006. Only the latter share option scheme is relevant in applying IFRS 2.

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

### **Use of accounting estimates and judgements**

Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policies and/or the notes to the financial statements and the key areas are summarised below:

## DDD GROUP PLC

### NOTES TO THE INTERIM FINANCIAL INFORMATION

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#### 1. Accounting Policies (continued)

##### Use of accounting estimates and judgements (continued)

Judgements in applying accounting policies

- a) Capitalisation of development costs requires analysis of the likely profitability of the project.

Sources of estimation uncertainty

- a) Estimates of future profitability are required for the decision whether or not to create a deferred tax asset.
- b) Estimates are required as to determining future cash flows and an appropriate discount rate in performing a value in use calculation and impairment charges.

#### 2. Segmental reporting

The Group has a single class of business; that of developing software for supply to a specialised market within the electronics industry. As a result the directors do not consider that it is possible to analyse the Group's activities further on the basis of either a business stream or geographical basis.

#### 3. Earnings per share

	6 months to 30 June 2007 unaudited £'000	6 months to 30 June 2006 restated unaudited £'000	12 months to 31 Dec 2006 restated unaudited £'000
Loss for the year attributable to equity shareholders	(749)	(1,010)	(1,752)
	Shares	Shares	Shares
Issued ordinary shares at start of the period	74,416,547	46,566,547	46,566,547
Ordinary shares issued in the period	-	11,550,000	27,850,000
Issued ordinary shares at end of the period	74,416,547	58,116,547	74,416,547
Weighted average number of shares in issue for the period	74,416,547	55,094,880	57,315,680

Potential share issues arising from the Group's share option schemes are not dilutive due to the losses incurred during each financial period.

## **DDD GROUP PLC**

### **NOTES TO THE INTERIM FINANCIAL INFORMATION**

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#### **4. Transition to IFRS**

From 1 January 2006 the Group has adopted International Financial Reporting Standards (IFRS) in the preparation of its financial statements.

The main items contributing to the change in financial information compared with that reported under UK GAAP as at the transition date are shown below:

##### **IFRS 1 – First time adoption of International Financial Reporting Standards**

The reporting standard allows certain exemptions including the exemption from the retrospective application of IAS 21 'The effects of changes in foreign exchange rates'. The cumulative translation balance is moved into the retained earnings at the date of transition and any subsequent translation differences recognised under IAS 21 are held as a separate component of equity.

##### **IAS 38 – Intangible assets**

Under UK GAAP the decision as to whether development expenditure was capitalised was left to the directors.

IAS 38 requires the capitalisation of qualifying expenditure on the development phase of projects as an intangible asset. Costs capitalised are accumulated until the project is complete and then amortised over the period during which benefits are gained.

Detailed reconciliations between UK GAAP and IFRS of both equity and profit are shown at the end of this note.

## DDD GROUP PLC

### NOTES TO THE INTERIM FINANCIAL INFORMATION

#### 4. Transition to IFRS (continued)

##### Reconciliation of equity as at 1 January 2006

Condensed consolidated balance sheet	UK GAAP £'000	IFRS 1 £'000	IAS 38 £'000	IFRS £'000
<b>Assets</b>				
Non-current assets				
Property, plant and equipment	85			85
Intangible assets	10		301	311
Deposit				-
Total non-current assets	95		301	396
Current assets				
Trade and other receivables	202			202
Inventory	-			-
Cash and cash equivalents	286			286
Total current assets	488			488
<b>Total assets</b>	<b>583</b>		<b>301</b>	<b>884</b>
<b>Equity and liabilities</b>				
Capital and reserves				
Issued capital	4,657			4,657
Share premium	4,690			4,690
Merger reserve	13,279			13,279
Other reserve	209			209
Share based payment reserve	20			20
Translation reserve	(418)	418		-
Retained earnings	(21,964)	(418)	211	(22,171)
Total equity	473		211	684
Non-current liabilities				
Deferred tax liabilities	-		90	90
Total non-current liabilities	-		90	90
Current liabilities				
Trade and other payables	110			110
Total current liabilities	110			110
Total liabilities	110		90	200
<b>Total equity and liabilities</b>	<b>583</b>		<b>301</b>	<b>884</b>

## DDD GROUP PLC

### NOTES TO THE INTERIM FINANCIAL INFORMATION

#### 4. Transition to IFRS (continued)

##### Reconciliation of equity as at 30 June 2006

Condensed consolidated balance sheet	UK GAAP £'000	IFRS 1 £'000	IAS 38 £'000	IFRS £'000
<b>Assets</b>				
Non-current assets				
Property, plant and equipment	69			69
Intangible assets	3		327	330
Deposit	-			-
Total non-current assets	72		327	399
Current assets				
Trade and other receivables	93			93
Inventory	-			-
Cash and cash equivalents	625			625
Total current assets	718			718
<b>Total assets</b>	<b>790</b>		<b>327</b>	<b>1,117</b>
<b>Equity and liabilities</b>				
Capital and reserves				
Issued capital	5,683			5,683
Share premium	4,722			4,722
Merger reserve	13,279			13,279
Other reserve	209			209
Share based payment reserve	136			136
Translation reserve	(354)	418		64
Retained earnings	(22,992)	(418)	229	(23,181)
Total equity	683	-	229	912
Non-current liabilities				
Deferred tax liabilities	-		98	98
Total non-current liabilities	-		98	98
Current liabilities				
Trade and other payables	107			107
Total current liabilities	107			107
Total liabilities	107		98	205
<b>Total equity and liabilities</b>	<b>790</b>		<b>327</b>	<b>1,117</b>

## DDD GROUP PLC

### NOTES TO THE INTERIM FINANCIAL INFORMATION

#### 4. Transition to IFRS (continued)

##### Reconciliation of equity as at 31 December 2006

Condensed consolidated balance sheet	UK GAAP £'000	IFRS 1 £'000	IAS 38 £'000	IFRS £'000
<b>Assets</b>				
Non-current assets				
Property, plant and equipment	54			54
Intangible assets	-		353	353
Deposit	-			-
Total non-current assets	54		353	407
Current assets				
Trade and other receivables	127			127
Inventory	-			-
Cash and cash equivalents	1,467			1,467
Total current assets	1,594			1,594
<b>Total assets</b>	<b>1,648</b>		<b>353</b>	<b>2,001</b>
<b>Equity and liabilities</b>				
Capital and reserves				
Issued capital	7,442			7,442
Share premium	4,612			4,612
Merger reserve	13,279			13,279
Other reserve	85			85
Share based payment reserve	189			189
Translation reserve	(494)	418		(76)
Retained earnings	(23,628)	(418)	247	(23,799)
Total equity	1,485	-	247	1,732
Non-current liabilities				
Deferred tax liabilities	-		106	106
Total non-current liabilities	-		106	106
Current liabilities				
Trade and other payables	163			163
Total current liabilities	163			163
Total liabilities	163		106	269
<b>Total equity and liabilities</b>	<b>1,648</b>		<b>353</b>	<b>2,001</b>

## DDD GROUP PLC

### NOTES TO THE INTERIM FINANCIAL INFORMATION

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#### 4. Transition to IFRS (continued)

##### Reconciliation of profit for the period ended 30 June 2006

	UK GAAP £'000	IFRS 1 £'000	IAS 38 £'000	IFRS £'000
Revenue	146			146
Cost of sales	-			-
Gross profit	146			146
Administration expenses	(1,067)		26	(1,041)
Share based payment	(116)			(116)
Finance income	9			9
Finance expense	-			-
Loss before tax	(1,028)		26	(1,002)
Taxation	-		(8)	(8)
Loss for the period	(1,028)		18	(1,010)

##### Reconciliation of profit for the period ended 31 December 2006

	UK GAAP £'000	IFRS 1 £'000	IAS 38 £'000	IFRS £'000
Revenue	305			305
Cost of sales	-			-
Gross profit	305			305
Administration expenses	(1,934)		52	(1,882)
Share based payment	(169)			(169)
Finance income	18			18
Finance expense	-			-
Loss before tax	(1,780)		52	(1,728)
Taxation	(8)		(16)	(24)
Loss for the period	(1,788)		36	(1,752)

#### Cashflow

As a result of the transition to IFRS the following changes have resulted in the cashflow statement.

The definition of cash under UK GAAP is narrower than under IAS 17 'Cash flow statements'. Under IFRS highly liquid investments, readily convertible to a known amount of cash and with an insignificant risk of a change in value are regarded as cash equivalents. Such a readily convertible investment is the money market deposit and this is included in the heading 'Cash and cash equivalents'.

## **DDD GROUP PLC**

### NOTES TO THE INTERIM FINANCIAL INFORMATION

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#### **4. Transition to IFRS (continued)**

##### **Cashflow (continued)**

Under UK GAAP payments to acquire property, plant and equipment were classified as part of 'Capital expenditure and financial investment' whilst under IFRS such payments have been reclassified as part of 'Investing activities'.

There are no other material differences between the cashflow statement presented under IFRS and that presented under UK GAAP.