



DisplayLink (UK) Limited  
Consolidated Financial Statements

For The Year Ended 31 December 2014

Registered in England & Wales Number 04811048

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# **DisplayLink (UK) Limited**

## **Consolidated Financial Statements**

**Year Ended 31 December 2014**

<b>Contents</b>	<b>Pages</b>
Officers And Professional Advisers	<b>1</b>
The Directors' Report	<b>2 to 4</b>
Strategic Report	<b>5</b>
Independent Auditors' Report	<b>6 to 7</b>
Consolidated Profit And Loss Account	<b>8</b>
Consolidated Statement Of Total Recognised Gains and Losses	<b>8</b>
Consolidated Balance Sheet	<b>9</b>
Company Balance Sheet	<b>10</b>
Consolidated Cash Flow Statement	<b>11</b>
Notes To The Financial Statements	<b>12 to 26</b>

# DisplayLink (UK) Limited

## Officers And Professional Advisers

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### The Board of Directors

Graham O'Keeffe (Chairman)  
Alan Duncan  
Mark Evans  
Henry Happel III  
Martin Jackson  
David Mooring

Hans-Dieter Koch (appointed 31 January 2014)

### Company Secretary

John Lee

### Registered Office

Mount Pleasant House  
Mount Pleasant  
Cambridge  
CB3 0RN

### Independent Auditors

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditor  
Abacus House, Castle Park  
Cambridge, CB3 0AN, UK

### Bankers

Clydesdale Bank Plc  
30 St Vincent Place  
Glasgow  
G1 2HL

# DisplayLink (UK) Limited

## The Directors' Report

### Year Ended 31 December 2014

The directors present their annual report and the audited financial statements of the group for the year ended 31 December 2014.

#### Principal Activities

DisplayLink (UK) Limited ("DisplayLink") is a leading fabless semiconductor and software provider of plug and play solutions to simplify the connection between multiple flat panel monitors and computing devices such as laptops, PCs, ultrabooks, tablets, and high-end smartphones using standard interfaces such as USB, Wi-Fi and Ethernet. The group's solutions benefit from changing trends in the enterprise IT market such as the growth of mobile devices, the emergence of bring your own device (BYOD), 4K ultra HD and the increasing use of multi-screen computing.

#### Functional Currency change

On 1 January 2014, both the functional and presentation currencies for DisplayLink (UK) Limited were changed from pounds sterling to US\$. Sales and purchases of goods for re-sale are both denominated in US\$, and from 2014 an increasing proportion of the overheads and capital purchases are also denominated in US\$. All equity funding, and a large proportion of debt funding was in US\$. From 2014 onwards, it was felt the board determined that it was more appropriate to have US\$ as the functional currency, as it better reflected the economic environment in which the company operated.

#### Future developments

See disclosure in the strategic report.

#### Going Concern

DisplayLink (UK) Limited is a wholly owned subsidiary of DisplayLink Corp. upon whom it has historically been reliant for funding until it reached a break even trading cash flow on a sustainable basis. During the period under review, the company and its subsidiary undertaking did achieve positive operating cash flows. The company had a loan finance facility throughout the first half of the year ended 31 December 2014, but repaid this facility in full during July 2014.

The directors have prepared cash flow forecasts for a period of not less than 12 months from the date of approval of these financial statements, which indicate that no further funding is required by the business.

The directors of DisplayLink (UK) Limited have a reasonable expectation that the company and the group have adequate resources for the foreseeable future, and thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### Dividends

The directors do not recommend the payment of a dividend (2013 - \$nil).

#### Directors

The directors who were in office during the year and up to the date of signing the financial statements were:-

Graham O'Keeffe (Chairman)  
Alan Duncan  
Mark Evans  
Henry Happel III  
Martin Jackson  
David Mooring  
Maximilian Schroeck (resigned 31 January 2014)  
Hans-Dieter Koch (appointed 31 January 2014)

#### Directors' Indemnities

The group has made qualifying third party indemnity provisions for the benefit of its directors which were in force during the financial year and remain in force at the date of signing the financial statements.

# DisplayLink (UK) Limited

## The Directors' Report *(continued)*

Year Ended 31 December 2014

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### Financial Risk Management Objectives and Policies

The group's activities could expose it to a number of financial risks including competition risk, cash flow risk, credit risk, interest rate risk and foreign exchange risk. Management of foreign exchange risk is governed by the group's policies approved by the board of directors. The group does not use derivative financial instruments for speculative purposes. The key risks affecting the business including financial risks are set out below.

#### *Technology and Market Risk*

The group's principal risk is that the products it develops are technologically out of date or are not wanted by the market when such products are launched. The development of new products is very expensive and, if unsuccessful, the group will not recoup its investment and may suffer as a result.

#### *Competition risk*

The group operates in a competitive market. The group is subject to the threat of its competitors launching new products in the market before the group updates and develops its own range. This could render products out of date and could result in rapid loss of market share. To reduce this risk, the group invests heavily in product development to ensure that it has products at various stages of the product life cycle.

#### *Cash flow risk*

The group's activities and development expose it to the risk that the group and wider group, incorporating its parent company, will encounter difficulty in meeting its liabilities as they fall due. This risk is managed through day to day monitoring of future cash flow requirements.

#### *Credit risk*

The group's principal financial assets are bank balances and cash and trade and other debtors. The group's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies.

The company's trade receivables are concentrated in a relatively few number of customers and as a result, the company maintains individually significant trade receivable balances with these customers. If the financial condition or operations of these customers were to deteriorate substantially, the company's operating results could be adversely affected. The company performs periodic evaluations of its customers' financial condition, but generally does not require collateral for sales on credit. The company's historical credit losses have been within management's expectations and the carrying value of the company's trade receivable balance approximates fair value.

#### *Interest rate risk*

The group no longer has third party debt, and thus the group considers that this risk is low.

#### *Foreign exchange risk*

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The group now has a foreign exchange hedging strategy in place. This involves the use of forward foreign exchange contracts when considered appropriate.

# DisplayLink (UK) Limited

## The Directors' Report *(continued)*

Year Ended 31 December 2014

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### Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 of the group and the company and of the profit or loss of the 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

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

### Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

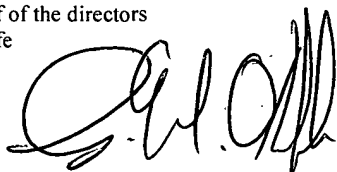
This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

### Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them as auditor will be proposed at the forthcoming Annual General Meeting.

Signed on behalf of the directors

Graham O'Keeffe  
Chairman



Approved by the directors on 15 April 2015

# DisplayLink (UK) Limited

## Strategic Report

### Year Ended 31 December 2014

The directors present their strategic report for the group for the year ended 31 December 2014.

#### Business Review

The group has had a very successful year, with turnover increasing by 29% to \$33.8 million in 2014 from \$26.1 million in 2013. This is as a result of growing adoption of the USB3.0 standard within the industry. The group now expects turnover to continue to grow rapidly, primarily through significant growth in shipments of its 3<sup>rd</sup> generation chip.

The value of its technical solution and business model is demonstrated by product gross margins, which increased slightly from 67.5% in 2013 to 67.9% in 2014. The group made an operating profit in 2014 of \$2.1 million, as compared with an operating profit in 2013 of \$1.6 million. The group is expected to continue to make profits in 2015 and beyond. The group plans to continue its strong investment in the business to drive growth and position itself to execute on the growing market opportunity.

Net funds (cash and investments less debt) increased from \$5.8 million at 31 December 2013 to \$8.4 million at 31 December 2014, a net funds inflow of \$2.6 million. This was largely due to a \$4.2 million net cash inflow from operating activities.

The average number of employees within the business increased from 75 in 2013 to 95 in 2014.

#### Principal Risks and Uncertainties

The group's principal risks and uncertainties are discussed in the Directors' report under the section "Financial Risk Management Objectives and Policies"

#### Key Performance Indicators

To support the group's strategy and to monitor performance, the directors use a number of financial and non-financial key performance indicators (KPIs). These KPIs are selected as being important to the success of the group in delivering its strategic objectives and include revenue, gross margin %, operating costs, EBITDA, cash, headcount, average selling prices and product costs. Progress is assessed by comparison with the group's strategy, its budget for the year and against historic performance. Executive management use a range of further benchmarks and other KPIs as part of their planning and performance review processes. The list of KPIs selected is reviewed and updated to ensure it remains important and relevant to the success of the group.

In general, the group has performed well against all of its KPIs.

#### Future Outlook

The directors expect revenues and profitability to continue to grow and, to support such growth, headcount is expected to increase by over 20% in the next twelve months. A new product is currently in development and this is expected to generate revenues within twelve months. The group has strong cash position and no debt and it is confident that its growth can be funded from existing resources.

Signed on behalf of the directors  
Graham O'Keeffe  
Chairman



Approved by the directors on 15 April 2015

# **DisplayLink (UK) Limited**

## **Independent Auditors' Report To The Members Of DisplayLink (UK) Limited**

**Year Ended 31 December 2014**

### **Report on the financial statements**

#### **Our opinion**

In our opinion, DisplayLink (UK) Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2014 and of the group's profit and cash flows 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.

#### **What we have audited**

DisplayLink (UK) Limited's financial statements comprise:

- the Consolidated and Company Balance Sheets as at 31 December 2014;
- the Consolidated Profit and Loss Account and Consolidated Statement of Total Recognised Gains and Losses for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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#### **Opinion on other matter prescribed by the Companies Act 2006**

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

#### **Other matters on which we are required to report by exception**

##### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.



# DisplayLink (UK) Limited

## Independent Auditors' Report To The Members Of DisplayLink (UK) Limited

Year Ended 31 December 2014

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Consolidated Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Adrian Bennett (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cambridge  
15 April 2015

# DisplayLink (UK) Limited

## Consolidated Profit and Loss Account

Year Ended 31 December 2014

	Note	2014 \$	2013 \$
Turnover	2	33,787,234	26,101,855
Cost of sales		(10,837,325)	(8,495,706)
Gross Profit		22,949,909	17,606,149
Administrative expenses		(20,823,874)	(16,034,600)
Operating Profit		2,126,035	1,571,549
Interest receivable and similar income	6	58,765	110,638
Interest payable and similar charges	7	(510,875)	(726,538)
Profit on Ordinary Activities Before Taxation	3	1,673,925	955,649
Tax on profit on ordinary activities	8	1,233,786	765,524
Profit for the Financial Year	19	2,907,711	1,721,173

All activities derive from continuing operations.

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

## Consolidated Statement Of Total Recognised Gains And Losses

Year Ended 31 December 2014

	Note	2014 \$	2013 \$
Profit for the Financial Year	19	2,907,711	1,721,173
Currency translation difference on overseas subsidiary		(18,388)	207,948
Total gains and losses recognised relating to the year		2,889,323	1,929,121

The notes on pages 12 to 26 form part of these financial statements.

# DisplayLink (UK) Limited

## Consolidated Balance Sheet

As at 31 December 2014

	Note	2014 \$	2013 \$
<b>Fixed Assets</b>			
Intangible assets	10	1,414,638	418,772
Tangible assets	11	887,932	1,081,801
		<u>2,302,570</u>	<u>1,500,573</u>
<b>Current Assets</b>			
Stocks	13	2,057,153	2,143,789
Debtors	14	4,447,872	4,049,337
Short Term Investments – cash held on deposit		5,753,846	7,718,695
Cash at bank and in hand		2,664,277	1,445,391
		<u>14,923,148</u>	<u>15,357,212</u>
<b>Creditors: Amounts Falling due Within One Year</b>	15	<u>(6,316,844)</u>	<u>(6,639,836)</u>
<b>Net Current Assets</b>		<u>8,606,304</u>	<u>8,717,376</u>
<b>Total Assets Less Current Liabilities</b>		<u>10,908,874</u>	<u>10,217,949</u>
<b>Creditors: Amounts Falling due after More than One Year</b>	16	<u>(492,456)</u>	<u>(2,708,710)</u>
<b>Net Assets</b>		<u>10,416,418</u>	<u>7,509,239</u>
<b>Capital and Reserves</b>			
Called up share capital	18	17,166,021	17,166,021
Capital contribution reserve	19	53,300,000	53,300,000
Foreign Currency Translation Reserve	19	(2,873,635)	(2,873,635)
Other reserves	19	25,994	25,994
Profit and loss account	19	(57,201,962)	(60,109,141)
<b>Total shareholders' Funds</b>	20	<u>10,416,418</u>	<u>7,509,239</u>

The financial statements on pages 8 to 26 were approved by the Board of Directors on 15 April 2015 and signed on its behalf by:



Graham O'Keeffe  
Chairman

The notes on pages 12 to 26 form part of these financial statements.

# DisplayLink (UK) Limited

## Company Balance Sheet

As at 31 December 2014

	Note	2014 \$	2013 \$
<b>Fixed Assets</b>			
Intangible assets	10	1,414,638	418,772
Tangible assets	11	848,201	1,028,933
Investments	12	19,258	19,258
		<u>2,282,097</u>	<u>1,466,963</u>
<b>Current Assets</b>			
Stocks	13	2,057,153	2,143,789
Debtors	14	4,397,578	3,990,768
Short Term Investments – cash held on deposit		5,753,846	7,718,695
Cash at bank and in hand		2,632,774	1,437,594
		<u>14,841,351</u>	<u>15,290,846</u>
<b>Creditors: Amounts Falling due Within One Year</b>	15	<u>(6,296,651)</u>	<u>(6,621,941)</u>
<b>Net Current Assets</b>		<u>8,544,700</u>	<u>8,668,905</u>
<b>Total Assets Less Current Liabilities</b>		<u>10,826,797</u>	<u>10,135,868</u>
<b>Creditors: Amounts Falling due after More than One Year</b>	16	<u>(492,456)</u>	<u>(2,708,710)</u>
<b>Net Assets</b>		<u>10,334,341</u>	<u>7,427,158</u>
<b>Capital and Reserves</b>			
Called up share capital	18	17,166,021	17,166,021
Capital contribution reserve	19	53,300,000	53,300,000
Foreign Currency Translation Reserve	19	(2,890,431)	(2,890,431)
Other reserves	19	25,994	25,994
Profit and loss account	19	(57,267,243)	(60,174,426)
<b>Total shareholders' Funds</b>		<u>10,334,341</u>	<u>7,427,158</u>

The financial statements on pages 8 to 26 were approved by the Board of Directors and authorised for issue on 15 April 2015 and signed on its behalf by:



Graham O'Keeffe  
Chairman

The notes on pages 12 to 26 form part of these financial statements.

# DisplayLink (UK) Limited

## Consolidated Cash Flow Statement

Year Ended 31 December 2014

	Note	2014 \$	2013 \$
Net cash inflow from operating activities	21	3,903,250	1,079,424
Returns on investments and servicing of finance	22	(502,506)	(226,795)
Taxation	22	835,781	1,230,117
Capital expenditure and financial investment	22	(1,385,947)	(1,162,041)
Cash inflow before management of liquid resources and financing		2,850,578	920,705
Management of liquid resources	22	1,964,849	(578,458)
Financing	22	(3,596,541)	(1,000,000)
Increase / (Decrease) in cash in the year	23	1,218,886	(657,753)

The notes on pages 12 to 26 form part of these financial statements.

# DisplayLink (UK) Limited

## Notes to the Financial Statements

Year Ended 31 December 2014

### 1. Accounting Policies

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and with applicable United Kingdom accounting standards. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

#### Accounting convention

The financial statements are prepared under the historical cost convention.

#### Going Concern

DisplayLink (UK) Limited is a wholly owned subsidiary of DisplayLink Corp. upon whom it has historically been reliant for funding until it reached a break even trading cash flow on a sustainable basis. During the period under review, the company and its subsidiary undertaking did achieve positive operating cash flows. The company had a loan finance facility throughout the first half of the year ended 31 December 2014, but repaid this facility in full during July. The directors have prepared cash flow forecasts for a period of not less than 12 months from the date of approval of these financial statements, which indicate that no further funding is required by the business.

The directors of DisplayLink (UK) Limited have a reasonable expectation that the company and the group have adequate resources for the foreseeable future, and thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary DisplayLink (Poland) sp. z o.o drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

Intra-group transactions, including receivables and payables, have been eliminated on consolidation. The subsidiary uses uniform accounting policies.

#### Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is 20 years. Provision is made for any impairment.

#### Investments

Fixed asset investments are recorded at cost, less any provisions for impairment.

#### Intangible assets

Purchased intellectual property is included at cost and depreciated over the expected life, which is between 3 and 5 years.

# DisplayLink (UK) Limited

## Notes to the Financial Statements Continued

Year Ended 31 December 2014

### 1. Accounting Policies (continued)

#### Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. The cost of tangible fixed assets is their purchase cost, together with any incidental cost of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic life of the assets concerned. The principal annual rates used for this purpose are based on the following:

Leasehold improvements	-	Life of the lease
Research and Development Equipment	-	25% straight line
Research and Development Software	-	Lower of the expected life of the software or 33% straight line
Fixtures and Fittings	-	25% straight line
Office software	-	25% straight line
Computer Equipment	-	50% straight line
Production Tooling	-	33% straight line

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

#### Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

#### Cash at bank and in hand and short term investments

Cash and cash equivalents include cash in hand and other short-term, highly liquid investments with original maturities of three months or less. The carrying amount approximates to fair value because of the short-term maturity of these investments.

Short term investments comprise deposits held with banks with original maturities of three months or more.

#### Turnover and revenue recognition

Turnover represents the invoiced amounts for goods and services sold and provided, net of value added tax. The group recognises revenue for product sales when title transfers and risk of loss has passed to the customer, which is generally upon shipment of product to the customer.

#### Foreign currencies

On 1 January 2014, both the functional and presentation currencies for DisplayLink (UK) Limited were changed from pounds sterling to US\$. Sales and purchases of goods for re-sale are both denominated in US\$, and from 2014 an increasing proportion of the overheads and capital purchases are also denominated in US\$. All equity funding, and a large proportion of debt funding was in US\$. From 2014 onwards, the board determined that it was more appropriate to have US\$ as the functional currency, as it better reflected the economic environment in which the company operated.

The exchange difference arising on the translation of the balance sheet of DisplayLink (UK) Limited as at 1 January 2014 from sterling to US\$ has been taken to the Foreign Currency Translation Reserve. The prior year comparatives have also been represented, but not remeasured, in US\$ which has also led to the inclusion of the Foreign Currency Translation Reserve in the 2013 balance sheet.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations and on foreign currency borrowings, to the extent that they hedge the group's investment in such operations, are reported in the statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

# DisplayLink (UK) Limited

## Notes to the Financial Statements Continued

Year Ended 31 December 2014

### 1. Accounting Policies (continued)

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Forward foreign exchange contracts are entered into for the purposes of hedging future transactions. Foreign exchange gains or losses are recognised in the profit and loss account at the point when the various foreign exchange transactions settle. As the Group does not adopt *FRS 26 Financial Instruments: Recognition and Measurement*, no asset or liability has been recognised in respect of forward foreign exchange contracts outstanding as at the year end.

#### Leases

Rentals payable under operating leases are charged on a straight-line basis over the lease term, even if payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Assets held under finance and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

#### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

#### Pension costs

The group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the group. The annual contributions payable are charged to the profit and loss account. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.



# DisplayLink (UK) Limited

## Notes to the Financial Statements Continued

Year Ended 31 December 2014

### 1. Accounting Policies (continued)

#### Research and development

Expenditure on research and development is written off in the period in which it is incurred.

#### Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

#### Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

#### Share based payments

The group has applied the requirements of FRS 20 "Share-based Payment" and UITF 44 "Group and Treasury transactions". In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2007.

The group's ultimate parent company issues equity-settled share-based payments to certain employees and third parties. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the date of grant of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

#### Borrowings

Interest bearing loans are recorded at the proceeds received net of direct issue costs. Finance charges, with the exception of share based payment costs, are accounted for on an accruals basis in the profit and loss account using a straight line method.

### 2. Turnover

All turnover arises from the group's principal activity. A geographical analysis of turnover by destination is given below:

	2014 \$	2013 \$
Europe	127,680	69,720
Rest of World	33,659,554	26,032,135
	<u>33,787,234</u>	<u>26,101,855</u>

All turnover is earned by DisplayLink (UK) Limited.

# DisplayLink (UK) Limited

## Notes to the Financial Statements Continued

Year Ended 31 December 2014

### 3. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging / (crediting):

	2014 \$	2013 \$
Depreciation of tangible fixed assets:		
- owned	700,094	813,674
- held under finance leases and hire purchase contracts	-	4,843
Amortisation of intangible fixed assets	979,000	884,316
Loss on disposal of tangible fixed assets	966	500
Research and development expenditure	14,212,369	10,398,945
Operating lease rentals – Land and buildings	465,093	441,036
Foreign exchange losses / (gains)	218,461	(55,101)

The analysis of auditors' remuneration is as follows:

Fees payable to the company's auditor for the audit of the group's annual financial statements	35,201	33,448
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Fees payable to PricewaterhouseCoopers LLP and their associates for non-audit services to the company are not required to be disclosed because the parent consolidated financial statements are required to disclose such fees on a consolidated basis.

### 4. Staff costs

The average monthly number of employees for the group (including executive directors) was:

	2014 Number	2013 Number
Administration	14	12
Sales and marketing	5	5
Research and development	67	51
Production	9	7
	95	75

Their aggregate remuneration comprised:

	2014 \$	2013 \$
Wages and salaries	7,892,264	6,336,786
Social security costs	968,621	786,402
Other pension costs	482,039	317,811
Share-based payments (see note 25)	17,856	44,628
	9,360,780	7,485,627

# DisplayLink (UK) Limited

## Notes to the Financial Statements Continued

Year Ended 31 December 2014

### 5. Directors' emoluments

Directors' remuneration	2014 \$	2013 \$
Aggregate emoluments	201,893	151,764
	<u>201,893</u>	<u>151,764</u>

The number of directors who:	Number	Number
Are a member of a money purchase pension scheme	-	-

Remuneration of the highest paid director	2014 \$	2013 \$
Aggregate emoluments	182,996	114,780
Company contributions to money purchase pension schemes	-	-
	<u>182,996</u>	<u>114,780</u>

5 (2013 - 5) directors received no remuneration for their services to the group.

The above costs represent 50% of the total amounts paid to the two directors concerned. The other 50% of the costs is borne by the parent company, DisplayLink Corp.

No directors exercised options over shares in the ultimate parent company, Displaylink Corp. in 2014 or 2013.

### 6. Interest receivable and similar income

	2014 \$	2013 \$
Bank interest receivable	58,765	110,638
	<u>58,765</u>	<u>110,638</u>

### 7. Interest payable and similar charges

	2014 \$	2013 \$
Interest on loans	133,926	336,983
Amortisation of loan issue costs	185,770	108,318
Exchange loss on foreign currency borrowings	65,801	13,194
Interest on finance lease and hire purchase	122	450
Exit fees on loan financing	125,256	267,593
	<u>510,875</u>	<u>726,538</u>

# DisplayLink (UK) Limited

## Notes to the Financial Statements Continued

### Year Ended 31 December 2014

#### 8. Tax on profit on ordinary activities

##### a) Analysis of credit in year

	2014 \$	2013 \$
<b>Current tax credit</b>		
Research and Development tax credit at 11%	1,250,297	771,852
Adjustments in respect of prior years	-	1,200
Foreign tax	(16,511)	(7,528)
<b>Total current tax credit</b>	<b>1,233,786</b>	<b>765,524</b>

The standard rate of tax for the year, based on the UK effective standard rates of corporation tax, is 21.5% (2013 – 23.25%). The actual tax credit for the year differs from (2013: differs from) the standard rate for the reasons set out in the following reconciliation.

	2014 \$	2013 \$
<b>Profit on ordinary activities before taxation</b>	<b>1,673,925</b>	<b>955,649</b>
Tax on profit on ordinary activities at effective standard rate	359,894	222,188
Factors affecting the charge:		
Disallowable expenses	40,236	(12,083)
Capital allowances in excess of depreciation	(6,779)	20,395
Exchange rate effect	-	(1,566)
Research and development tax credit enhancement	(1,636,467)	(998,207)
Adjustments in respect of prior years	-	(1,200)
Difference in overseas tax rates	9,330	4,949
<b>Current tax credit for the year</b>	<b>(1,233,786)</b>	<b>(765,524)</b>

##### b) Factors affecting future tax charges

At 31 December 2014 the group has an unrecognised deferred tax asset in respect of tax losses amounting to \$5,202,080 (2013 - \$5,464,927). The deferred tax asset has not been recognised as there is uncertainty as to whether sufficient taxable profits will be recognised in the foreseeable future (see note 17).

In December 2012, the UK Government also proposed to further reduce the standard rate of UK corporation tax to 21% effective 1 April 2014, and to 20% effective 1 April 2015. These rate reductions became substantively enacted in July 2013.

The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

#### 9. Profit attributable to the Company

The profit for the financial year dealt with in the financial statements of the parent company was \$2,890,824 (2013 - \$1,717,609). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company.

There are no recognised gains or losses relating to the parent company for the current financial year and preceding financial year other than those stated above. Accordingly no parent company statement of total recognised gains and losses is provided.

# DisplayLink (UK) Limited

## Notes to the Financial Statements Continued

Year Ended 31 December 2014

### 10. Intangible assets

	Purchased intellectual property \$
<b>Group and company</b>	
<b>Cost</b>	
At 1 January 2014	4,605,164
Additions	1,974,866
At 31 December 2014	6,580,030
<b>Accumulated Amortisation</b>	
At 1 January 2014	4,186,392
Charge for the year	979,000
At 31 December 2014	5,165,392
<b>Net book value</b>	
At 31 December 2014	1,414,638
At 31 December 2013	418,772

### 11. Tangible fixed assets

Group	Leasehold Improve- ments \$	R&D Equipment \$	R&D Software \$	Fixtures and Fittings \$	Office Software \$	Computer Equipment \$	Prod'n Tooling \$	Total \$
<b>Cost</b>								
At 1 January 2014	693,732	856,869	756,216	394,586	71,188	831,896	2,133,157	5,737,644
Additions	3,612	348,673	-	5,883	-	150,284	5,852	514,304
Disposals	-	-	-	-	-	(43,491)	-	(43,491)
Foreign exchange	-	(11,718)	-	(5,165)	-	(20,582)	-	(37,465)
At 31 December 2014	697,344	1,193,824	756,216	395,304	71,188	918,107	2,139,009	6,170,992
<b>Accumulated Depreciation</b>								
At 1 January 2014	683,434	637,942	755,275	385,456	38,505	722,138	1,433,093	4,655,843
Charge for the year	13,910	168,991	941	4,873	8,897	130,147	372,335	700,094
Disposals	-	-	-	-	-	(42,525)	-	(42,525)
Foreign exchange	-	(8,813)	-	(4,156)	-	(17,383)	-	(30,352)
At 31 December 2014	697,344	798,120	756,216	386,173	47,402	792,377	1,805,428	5,283,060
<b>Net book value</b>								
At 31 December 2014	-	395,704	-	9,131	23,786	125,730	333,581	887,932
At 31 December 2013	10,298	218,927	941	9,130	32,683	109,758	700,064	1,081,801

# DisplayLink (UK) Limited

## Notes to the Financial Statements Continued

Year Ended 31 December 2014

### 11. Tangible fixed assets (continued)

Company	Leasehold Improvements \$	R&D Equipment \$	R&D Software \$	Fixtures and Fittings \$	Office Software \$	Computer Equipment \$	Prod'n Tooling \$	Total \$
<b>Cost</b>								
At 1 January 2014	693,732	793,562	756,216	364,487	71,188	720,537	2,133,157	5,532,879
Additions	3,611	333,059	-	1,359	-	123,031	5,852	466,912
Disposals	-	-	-	-	-	(43,491)	-	(43,491)
At 31 December 2014	<u>697,343</u>	<u>1,126,621</u>	<u>756,216</u>	<u>365,846</u>	<u>71,188</u>	<u>800,077</u>	<u>2,139,009</u>	<u>5,956,300</u>
<b>Accumulated Depreciation</b>								
At 1 January 2014	683,434	613,953	755,275	361,106	38,505	618,580	1,433,093	4,503,946
Charge for the year	13,909	131,884	941	1,375	8,897	117,337	372,335	646,678
Disposals	-	-	-	-	-	(42,525)	-	(42,525)
At 31 December 2014	<u>697,343</u>	<u>745,837</u>	<u>756,216</u>	<u>362,481</u>	<u>47,402</u>	<u>693,392</u>	<u>1,805,428</u>	<u>5,108,099</u>
<b>Net book value</b>								
At 31 December 2014	<u>-</u>	<u>380,784</u>	<u>-</u>	<u>3,365</u>	<u>23,786</u>	<u>106,685</u>	<u>333,581</u>	<u>848,201</u>
At 31 December 2013	<u>10,298</u>	<u>179,609</u>	<u>941</u>	<u>3,381</u>	<u>32,683</u>	<u>101,957</u>	<u>700,064</u>	<u>1,028,933</u>

### 12. Investments

Company	\$
<b>Cost and net book value</b>	
At 1 January 2014 and 31 December 2014	<u>19,258</u>

At 31 December 2014, the company held 100% of the issued ordinary share capital in DisplayLink (Poland) Sp. z o.o., a company incorporated in Poland. DisplayLink (Poland) Sp. z o.o., operates as a research and development company within the DisplayLink (UK) Limited group. The directors believe that the carrying value of this investment is supported by its underlying net assets.

### 13. Stocks

	<b>Group and Company</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Raw materials and consumables	<b>966,896</b>	895,221
Work in progress	<b>354,310</b>	293,233
Finished goods and goods for resale	<b>735,947</b>	955,335
	<u><b>2,057,153</b></u>	<u>2,143,789</u>

There is no material difference between the balance sheet value of stocks and their replacement cost.

# DisplayLink (UK) Limited

## Notes to the Financial Statements Continued

Year Ended 31 December 2014

### 14. Debtors

	Group		Company	
	2014	2013	2014	2013
	\$	\$	\$	\$
Trade debtors	2,402,902	2,411,700	2,402,902	2,411,700
Amounts owed by group undertakings	-	-	18,936	7,284
Research and development tax credit receivable	1,250,297	836,075	1,250,297	836,075
Other debtors	311,651	335,054	247,116	271,854
Prepayments and accrued income	483,022	466,508	478,327	463,855
	<u>4,447,872</u>	<u>4,049,337</u>	<u>4,397,578</u>	<u>3,990,768</u>

### 15. Creditors: Amounts falling due within one year

	Group		Company	
	2014	2013	2014	2013
	\$	\$	\$	\$
Bank loan (see note 16)	-	938,227	-	938,227
Obligations under hire purchase contracts	-	3,497	-	3,497
Trade creditors	841,429	584,510	841,429	584,510
Amounts owed to group undertakings	3,213,458	3,399,302	3,213,458	3,399,302
Taxation and social security	250,467	236,489	250,467	236,489
Other creditors	1,030,946	461,911	1,030,946	461,911
Accruals and deferred income	980,544	1,015,901	960,351	998,005
	<u>6,316,844</u>	<u>6,639,837</u>	<u>6,296,651</u>	<u>6,621,941</u>

### 16. Creditors: Amounts falling due after more than one year

	Group and Company	
	2014	2013
	\$	\$
Bank loan	-	2,418,857
Other creditors	492,456	289,853
	<u>492,456</u>	<u>2,708,710</u>

The loan from Clydesdale Bank Plc was secured by a fixed charge over the Parent Company, DisplayLink Corp. group's assets. This loan was repaid in full on 11 July 2014 but the fixed charge has not yet been formally released.

Borrowings are repayable as follows:

	Group and Company	
	2014	2013
	\$	\$
Bank loan		
Between one and two years	-	938,227
Between two and five years	-	1,480,630
	<u>-</u>	<u>2,418,857</u>
On demand or within one year (see note 15)	-	938,227
	<u>-</u>	<u>3,357,084</u>

Loan issue costs of \$nil are offset against the balance shown above (2013 - \$108,318)

# DisplayLink (UK) Limited

## Notes to the Financial Statements Continued

### Year Ended 31 December 2014

#### 17. Deferred tax asset

The deferred tax assets provided for and not provided for are as follows:

Group and company	Provided		Not provided	
	2014	2013	2014	2013
	\$	\$	\$	\$
Accelerated capital allowances	27,536	30,278	-	-
Trading losses	(27,536)	(30,278)	5,202,080	5,464,927
			<u>5,202,080</u>	<u>5,464,927</u>

At 31 December 2014 and 31 December 2013, the company and group have not recognised a deferred tax asset as there is uncertainty as to whether sufficient taxable profits will be realised in the foreseeable future. Although the company and group have had accounting profits in the last two financial years, and expect to continue to make accounting profits, the fact that the company engages in significant amounts of R&D activity, and grosses up its R&D costs by 225% as part of the R&D tax regime means that the company has historically always made taxable losses, and expects this situation to continue for the foreseeable future.

#### 18. Called up share capital

Allotted, called up and fully paid:

	2014	2013
	\$	\$
9,337,223 Ordinary shares of £1 each	<u>17,166,021</u>	<u>17,166,021</u>

#### 19. Reserves

	Capital Contribution Reserve	Other Reserves	Translation Reserve	Profit and Loss account
Group	\$	\$	\$	\$
At 1 January 2014	53,300,000	25,994	(2,873,635)	(60,109,141)
Profit for the financial year	-	-	-	2,907,711
Credit to equity: equity settled share-based payment	-	-	-	17,856
Currency translation difference on foreign currency net	-	-	-	(18,388)
At 31 December 2014	<u>53,300,000</u>	<u>25,994</u>	<u>(2,873,635)</u>	<u>(57,201,962)</u>

	Capital Contribution Reserve	Other Reserves	Translation Reserve	Profit and Loss account
Company	\$	\$	\$	\$
At 1 January 2014	53,300,000	25,994	(2,890,431)	(60,174,426)
Profit for the financial year	-	-	-	2,890,824
Credit to equity: equity settled share-based payment	-	-	-	16,359
At 31 December 2014	<u>53,300,000</u>	<u>25,994</u>	<u>(2,890,431)</u>	<u>(57,267,243)</u>



# DisplayLink (UK) Limited

## Notes to the Financial Statements Continued

Year Ended 31 December 2014

### 20. Reconciliation of movements in Consolidated shareholders' funds

	2014 \$	2013 \$
<b>Group</b>		
Profit for the financial year	2,907,711	1,721,173
Credit to equity for equity settled share-based payments (see note 25)	17,856	44,628
Currency translation difference on foreign currency net investments	(18,388)	206,709
Net addition to shareholders' funds	2,907,179	1,972,510
Opening shareholders' funds	7,509,239	5,536,729
Closing shareholders' funds	10,416,418	7,509,239
	2014 \$	2013 \$
<b>Company</b>		
Profit for the financial year	2,890,824	1,717,609
Credit to equity for equity settled share-based payments	16,359	40,961
Currency translation difference on foreign currency net investments	-	202,827
Net addition to shareholders' funds	2,907,183	1,961,397
Opening shareholders' funds	7,427,158	5,465,761
Closing shareholders' funds	10,334,341	7,427,158

### 21. Reconciliation of operating profit to operating cash flows

	2014 \$	2013 \$
Operating profit	2,126,035	1,571,549
Share-based payment charge	17,856	44,628
Depreciation and amortisation	1,679,094	1,702,832
Loss/(profit) on disposal of tangible fixed assets	966	(500)
Foreign exchange losses/(gains)	(39,581)	32,160
(Increase) in debtors	15,775	(823,203)
Decrease / (Increase) in stocks	86,636	(866,664)
Decrease / (Increase) in creditors	16,469	(581,378)
Net cash inflow from operating activities	3,903,250	1,079,424

# DisplayLink (UK) Limited

## Notes to the Financial Statements Continued

Year Ended 31 December 2014

### 22. Analysis of cash flows

	2014 \$	2013 \$
<b>Returns on investments and servicing of finance</b>		
Interest received	58,765	110,638
Interest paid	(561,271)	(337,433)
<b>Net cash outflow</b>	<b>(502,506)</b>	<b>(226,795)</b>
<b>Taxation</b>		
Research and development tax credits received	852,292	1,237,646
Foreign tax paid	(16,511)	(7,528)
	<b>835,781</b>	<b>1,230,118</b>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(514,304)	(554,282)
Proceeds from sale of tangible fixed assets	-	500
Purchase of intangible fixed assets	(871,643)	(608,259)
<b>Net cash outflow</b>	<b>(1,385,947)</b>	<b>(1,162,041)</b>
<b>Management of liquid resources</b>		
Movement on short term investments	1,964,849	(578,458)
<b>Financing</b>		
Repayment of Secured loan	(3,596,541)	(1,000,000)
<b>Net cash outflow</b>	<b>(3,596,541)</b>	<b>(1,000,000)</b>

### 23. Analysis and reconciliation of net funds

	1 January 2014 \$	Cash flow \$	Other non-cash changes \$	31 December 2014 \$
Cash at bank and in hand	1,445,391	1,218,886	-	2,664,277
Debt due after 1 year	(2,418,857)	2,531,763	(112,906)	-
Debt due within 1 year	(938,227)	1,064,778	(126,551)	-
Investments	7,718,695	(1,964,849)	-	5,753,846
	<b>5,807,002</b>	<b>2,850,578</b>	<b>(239,457)</b>	<b>8,418,123</b>

	2014 \$	2013 \$
Increase in cash in the year	1,218,886	(657,753)
Cash outflow / (inflow) from change in liquid resources	(1,964,849)	711,236
Cash outflow from repayment of bank loan	3,596,541	1,000,000
Amortisation of loan issue costs	(185,770)	(108,318)
Foreign exchange (loss) / profit on debt financing	(53,687)	21,383
<b>Movement in net funds in year</b>	<b>2,611,121</b>	<b>966,548</b>
<b>Net funds at 1 January</b>	<b>5,807,002</b>	<b>4,840,454</b>
<b>Net funds at 31 December</b>	<b>8,418,123</b>	<b>5,807,002</b>

# DisplayLink (UK) Limited

## Notes to the Financial Statements Continued

### Year Ended 31 December 2014

#### 24. Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

Group	Land and buildings	
	2014	2013
	\$	\$
Expiry date		
- Within one year	18,194	21,417
- Between two and five years	343,526	356,241
	<u>361,720</u>	<u>377,658</u>

Company	Land and buildings	
	2014	2013
	\$	\$
Expiry date		
- Within one year	-	-
- Between two and five years	343,526	356,242
	<u>343,526</u>	<u>356,242</u>

At 31 December 2014, the group and the company had capital commitments of \$nil (2013 - \$203,234).

#### 25. Share based payments

Employees and some ex-employees of the group participate in share option schemes of DisplayLink Corp. Within the EMI Plans for 2012 and 2004, options are exercisable at a price at least equal to the estimated fair value of the shares on the date of grant. The share options vest over a period of 4 years, with 25% of the options vesting after 1 year and the remainder vesting evenly on a monthly basis for the remaining 3 years thereafter. If the options remain unexercised after a period of 10 years from the date of grant the options expire. Options are forfeited if the employee leaves the DisplayLink Corp. group before the options vest.

In 2012, a new share option scheme was implemented by DisplayLink Corp. For existing employees, the intention was that this plan replaced the pre-existing option schemes, and in order to be granted share options in the new scheme, the employee had to agree to forfeit shares in the old scheme. For these new options, vesting takes place over 4 years, but for employees as of 27 September 2011, the vesting start date was back-dated to 1 January 2010. Where an employee left the company, all options would be forfeited.

Details of the share options granted after 7 November 2002 outstanding during the year are as follows.

	2014		2013	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at the beginning of the year	9,241,257	\$0.02	14,990,943	\$0.05
Granted during the year	414,344	\$0.02	960,850	\$0.01
Forfeited during the year	(1,299,563)	\$0.04	(6,710,536)	\$0.09
Exercised during the year	-	-	-	-
Outstanding at the end of the year	<u>8,356,038</u>	<u>\$0.01</u>	<u>9,241,257</u>	<u>\$0.02</u>
Exercisable at the end of the year	<u>1,338,674</u>	<u>\$0.05</u>	<u>1,903,673</u>	<u>\$0.05</u>

There were no share options exercised during 2014 and 2013. The options outstanding at 31 December 2014 had a weighted average exercise price of \$0.01 (2013 - \$0.02) and a weighted average remaining contractual life of 2.6 years (2013 - 2.6 years). In 2014 the average exercise price of options granted was \$0.02 (2013 - \$0.01).

# DisplayLink (UK) Limited

## Notes to the Financial Statements Continued

Year Ended 31 December 2014

### 25. Share based payments (continued)

The inputs into the Black-Scholes model are as follows:

	Feb to May 2014
Weighted average share price	\$0.02
Weighted average exercise price	\$0.02
Expected volatility	200%
Expected life	2.5 years
Risk free rate	0.47-0.67%

Expected volatility was determined based on an average of the volatilities of peer group companies which management believes most closely reflects the group's activities multiplied by 5, which reflects both the extent to which the returns for the specific class of preferred stock over which the options are granted are more volatile than the returns as a whole. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

As mentioned above, during 2012 a new share option scheme was introduced, which for existing employees was treated as a modification to the original scheme. The fair value of the existing common stock options was deemed to be zero, and hence the incremental fair value recognised was the fair value of the new options, calculated using a Black Scholes methodology with the inputs above.

The group recognised total expenses of \$17,856 and \$44,628 included within administrative expenses related to equity-settled share-based payment transactions in 2014 and 2013 respectively.

### 26. Related party transactions

During the year, the group was charged a net amount of \$1,874,696 (2013 - \$1,747,923) in sales and marketing costs incurred on its behalf by DisplayLink Corp., the group's immediate and ultimate parent undertaking. The amounts owing at the year-end are \$3,213,458 (2013 - \$3,399,302) and are included within Creditors.

During the year, Martin Jackson, a director of the company, was a Chairman of the IP Committee. The fees he received for this work in 2014 totalled \$4,530 (2013 - \$9,210).

### 27. Ultimate parent undertaking and controlling party

The immediate and ultimate parent company is DisplayLink Corp., a company incorporated in the United States of America.

The directors consider that the DisplayLink Corp. is the ultimate controlling party and is the smallest and largest group in which the results of the company are consolidated. The consolidated financial statements of DisplayLink Corp. are not publicly available.