



DisplayLink (UK) Limited
Consolidated Financial Statements

For The Year Ended 31 December 2018

Registered in England & Wales Number 04811048



DisplayLink (UK) Limited

Consolidated Financial Statements

Year Ended 31 December 2018

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DisplayLink (UK) Limited

Officers And Professional Advisers

The Board of Directors

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

Company Secretary

John Lee

Registered Office

140 Science Park
Milton Road
Cambridge
CB4 0GF

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Maurice Wilkes Building, St John's Innovation Park
Cowley Road
Cambridge, CB4 0DS, UK

Bankers

Clydesdale Bank Plc
30 St Vincent Place
Glasgow
G1 2HL

DisplayLink (UK) Limited

The Directors' Report

Year Ended 31 December 2018

The directors present their annual report and the audited consolidated financial statements of DisplayLink (UK) Limited (the "Company") and its subsidiary undertaking (together the "Group") for the year ended 31 December 2018.

Principal Activities

DisplayLink (UK) Limited ("DisplayLink") is a leading fabless semiconductor and software provider whose products enable any device (mobile, tablet, PC) to connect to any display 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 consumerisation of IT, the emergence of bring your own device (BYOD) and the increasing use of multi-screen computing. In addition, the Group's technology is currently being extended to augmented and virtual reality applications as well as meeting room solutions. The Group operates on a worldwide basis with the majority of its turnover with ODM and distributor customers in Asia.

Future developments

See disclosure in the strategic report.

Going Concern

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 (2017 - \$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
Hans-Dieter Koch

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. In Jan 2019, new indemnity agreements were entered into between the Company and each of its directors and officers.

DisplayLink (UK) Limited

The Directors' Report *(continued)*

Year Ended 31 December 2018

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.

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 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 minimal and well within management's expectations. 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, mainly because its revenues are US\$ denominated whereas most of the operating expenses are GBP denominated

DisplayLink (UK) Limited

The Directors' Report *(continued)*

Year Ended 31 December 2018

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 parent company and of the profit or loss of the group and parent company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director in office at the date the Directors' Report is approved:

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

Disclosure of information to auditors

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

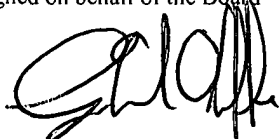
- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the group's 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 auditors and a resolution to reappoint them as auditors will be proposed at the forthcoming Annual General Meeting.

Signed on behalf of the Board



Graham O'Keeffe
Chairman

Approved by the directors on 15 May 2019

DisplayLink (UK) Limited

Strategic Report

Year Ended 31 December 2018

The directors present their strategic report for the group for the year ended 31 December 2018.

Business Review

The Group has had another very successful year with turnover increasing to \$100.9 million in 2018 from \$74.3 million in 2017. This is as a result of growing adoption of the USB3.0 standard within the industry and the increasing adoption of low cost 4K ultra HD displays. The Group now expects turnover to continue to grow through shipments of its 3rd and 4th generation chips.

The value of its technology and business model is demonstrated by product gross margins, they increased from 72.5% in 2017 to 74.1% in 2018, and remain leading in the industry. The Group made an operating profit in 2018 of \$35.9 million, as compared with an operating profit in 2017 of \$27.2 million.

The Group is expected to continue to make profits in 2019 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 opportunities in 4K, mobile and wireless virtual reality.

Group net funds (cash and short-term investments) increased from \$46.1 million at 31 December 2017 to \$84.5 million at 31 December 2018, a net funds inflow of \$38.4 million. This was largely due to cash inflows from operating activities.

The average number of employees within the Group increased from 149 in 2017 to 188 in 2018.

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, book-to-bill metrics, average selling prices and product costs. Progress is assessed by comparison with the Group's strategy and objectives, its budget for the year and against historical 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 to continue to grow and, to support such growth, headcount is expected to continue to grow in the next twelve months. Increased investment is expected to take place in new products and new markets. The new 4th generation chip is currently generating revenues and this is expected to grow significantly. The Company's technology is also being applied to augmented and virtual reality applications, as well as meeting room solutions.

The Group has strong cash position and no debt and it is therefore confident that its growth can be funded from existing resources.

Signed on behalf of the Board



Graham O'Keeffe
Chairman

Approved by the directors on 15 May 2019

DisplayLink (UK) Limited

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

Report on the audit of the financial statements

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 2018 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 (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and

have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Consolidated Financial Statements (the "Annual Report"), which comprise: The consolidated and company balance sheets as at 31 December 2018; the consolidated and company statements of changes in equity, the consolidated cash flow statement, the consolidated profit and loss account and the consolidated statement of comprehensive income for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

DisplayLink (UK) Limited

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

DisplayLink (UK) Limited

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

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made; 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.



Simon Ormiston (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge

16 May 2019

DisplayLink (UK) Limited

Consolidated Profit and Loss Account

Year Ended 31 December 2018

	Note	2018 \$	2017 \$
Turnover	4	100,851,374	74,263,504
Cost of sales		(26,089,623)	(20,397,618)
Gross Profit		74,761,751	53,865,886
Administrative expenses		(38,812,150)	(26,627,336)
Operating Profit		35,949,601	27,238,550
Interest receivable and similar income	7	1,317,940	323,215
Profit Before Taxation	5	37,267,541	27,561,765
Tax on profit	9	297,424	4,091,873
Profit for the Financial Year		37,564,965	31,653,638

All activities derive from continuing operations.

Consolidated Statement Of Comprehensive Income

Year Ended 31 December 2018

	2018 \$	2017 \$
Profit for the Financial Year	37,564,965	31,653,638
Currency translation difference on overseas subsidiary	(37,488)	39,528
Total comprehensive income for the year	37,527,477	31,693,166

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Consolidated Balance Sheet

As at 31 December 2018

	Note	2018 \$	2017 \$
Fixed Assets			
Intangible assets	10	6,173,819	1,103,209
Tangible assets	11	4,010,564	3,111,013
		<u>10,184,383</u>	<u>4,214,222</u>
Current Assets			
Stocks	13	4,821,079	3,844,957
Debtors (including \$4,527,799 due after more than 1 year)	14	17,235,527	16,922,646
Short term deposits		75,923,969	39,895,792
Cash at bank and in hand		8,543,353	6,215,854
		<u>106,523,928</u>	<u>66,879,249</u>
Creditors: Amounts Falling due Within One Year	15	<u>(15,627,316)</u>	<u>(11,172,477)</u>
Net Current Assets		<u>90,896,612</u>	<u>55,706,772</u>
Total Assets Less Current Liabilities		<u>101,080,995</u>	<u>59,920,994</u>
Creditors: Amounts Falling due after More than One Year	16	<u>(3,320,361)</u>	<u>-</u>
Net Assets		<u><u>97,760,634</u></u>	<u><u>59,920,994</u></u>
Capital and Reserves			
Called up share capital	19	17,166,021	17,166,021
Capital contribution reserve		53,300,000	53,300,000
Foreign Currency Translation Reserve		(2,873,635)	(2,873,635)
Other reserves		25,994	25,994
Profit and loss account		30,142,254	(7,697,386)
Total equity		<u><u>97,760,634</u></u>	<u><u>59,920,994</u></u>

The financial statements on pages 8 to 29 were approved by the Board of Directors on 15 May 2019 and signed on its behalf by:



Graham O'Keeffe
Chairman

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Company Balance Sheet

As at 31 December 2018

	Note	2018 \$	2017 \$
Fixed Assets			
Intangible assets	10	6,173,819	1,103,209
Tangible assets	11	3,536,211	2,944,776
Investments	12	19,258	19,258
		<u>9,729,288</u>	<u>4,067,243</u>
Current Assets			
Stocks	13	4,821,079	3,844,957
Debtors (including \$4,527,799 due after more than 1 year)	14	17,035,385	16,790,381
Short term investments		75,923,969	39,895,792
Cash at bank and in hand		8,323,519	5,968,441
		<u>106,103,952</u>	<u>66,499,571</u>
Creditors: Amounts Falling due Within One Year	15	<u>(15,542,147)</u>	<u>(11,146,859)</u>
Net Current Assets		<u>90,561,805</u>	<u>55,352,712</u>
Total Assets Less Current Liabilities		<u>100,291,092</u>	<u>59,419,955</u>
Creditors: Amounts Falling due after More than One Year	16	<u>(3,320,361)</u>	<u>-</u>
Net Assets		<u>96,970,731</u>	<u>59,419,955</u>
Capital and Reserves			
Called up share capital	19	17,166,021	17,166,021
Capital contribution reserve		53,300,000	53,300,000
Foreign Currency Translation Reserve		(2,890,431)	(2,890,431)
Other reserves		25,994	25,994
Profit and loss account			
At 1 January		(8,181,629)	(39,781,271)
Profit for the financial year		37,238,613	31,369,971
Other changes in the Profit and loss account		312,163	229,671
		<u>29,369,147</u>	<u>(8,181,629)</u>
Total equity		<u>96,970,731</u>	<u>59,419,955</u>

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company.

The financial statements on pages 8 to 29 were approved by the Board of Directors and authorised for issue on 15 May 2019 and signed on its behalf by:



Graham O'Keeffe
Chairman

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Consolidated Statement of Changes in Equity

Year Ended 31 December 2018

Group	Called up share capital \$	Capital Contribution reserve \$	Foreign Currency Translation Reserve \$	Other Reserves \$	Profit and Loss account \$	Total equity \$
Balance as at 1 January 2017	17,166,021	53,300,000	(2,873,635)	25,994	(39,620,223)	27,998,157
Profit for the financial year	-	-	-	-	31,653,638	31,653,638
Other comprehensive income for the year	-	-	-	-	39,528	39,528
Total comprehensive income for the year	-	-	-	-	31,693,166	31,693,166
Credit to equity for equity settled share-based payments	-	-	-	-	229,671	229,671
Balance as at 31 December 2017	17,166,021	53,300,000	(2,873,635)	25,994	(7,697,386)	59,920,994
Balance as at 1 January 2018	17,166,021	53,300,000	(2,873,635)	25,994	(7,697,386)	59,920,994
Profit for the financial year	-	-	-	-	37,564,965	37,564,965
Other comprehensive expense for the year	-	-	-	-	(37,488)	(37,488)
Total comprehensive income for the year	-	-	-	-	37,527,477	37,527,477
Credit to equity for equity settled share-based payments	-	-	-	-	312,163	312,163
Balance as at 31 December 2018	17,166,021	53,300,000	(2,873,635)	25,994	30,142,254	97,760,634

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Company Statement of Changes in Equity

Year Ended 31 December 2018

Company	Called up share capital \$	Capital Contribution reserve \$	Foreign Currency Translation Reserve \$	Other Reserves \$	Profit and Loss account \$	Total equity \$
Balance as at 1 January 2017	17,166,021	53,300,000	(2,890,431)	25,994	(39,781,271)	27,820,313
Profit for the financial year	-	-	-	-	31,369,971	31,369,971
Total comprehensive income for the year	-	-	-	-	31,369,971	31,369,971
Credit to equity for equity settled share-based payments	-	-	-	-	229,671	229,671
Balance as at 31 December 2017	17,166,021	53,300,000	(2,890,431)	25,994	(8,181,629)	59,419,955
Balance as at 1 January 2018	17,166,021	53,300,000	(2,890,431)	25,994	(8,181,629)	59,419,955
Profit for the financial year	-	-	-	-	37,238,613	37,238,613
Total comprehensive income for the year	-	-	-	-	37,238,613	37,238,613
Credit to equity for equity settled share-based payments	-	-	-	-	312,163	312,163
Balance as at 31 December 2018	17,166,021	53,300,000	(2,890,431)	25,994	29,369,147	96,970,731

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Consolidated Cash Flow Statement

Year Ended 31 December 2018

	Note	2018 \$	2017 \$
Net cash from operating activities	20	39,140,389	24,645,159
Tax credit received (net)	20	(102,983)	1,054,410
Net cash generated from operating activities		39,037,406	25,699,569
Cash flow from investing activities			
Purchase of tangible assets		(1,933,828)	(1,497,028)
Purchase of intangible assets		-	(1,275,294)
Interest received		643,008	71,479
Purchases of short term investments		(65,788,695)	(37,809,925)
Maturities and sales of short term investments		30,350,986	15,690,769
Net cash used in investing activities		(36,728,529)	(24,819,999)
Net increase in cash and cash equivalents		2,308,877	879,570
Cash and cash equivalents at the beginning of the year		6,215,854	5,287,674
Foreign exchange effect on cash and cash equivalents		18,620	48,610
Cash and cash equivalents at the end of the year		8,543,353	6,215,854

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

1. General Information

DisplayLink (UK) Limited is a private company limited by shares and is incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of its registered office is 140 Cambridge Science Park, Milton Road, Cambridge, CB4 0GF.

2. Statement of compliance

These Group and individual financial statements of DisplayLink (UK) Limited have been prepared in compliance with United Kingdom accounting standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Significant Accounting Policies

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value.

The principal accounting policies, which have been applied consistently throughout the year, are set out below.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its wholly owned 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.

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 3 years.

Office software is included at cost and depreciated on a 25% straight line basis.

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
Fixtures and Fittings	-	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.

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

3. Significant Accounting Policies (continued)

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

The Group financial statements are presented in US\$. The Company's functional and presentational currency is US\$.

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 comprehensive income. All other exchange differences are included in the profit and loss account.

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.

Financial Instruments

The Group has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

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.

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.

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.

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

3. Significant Accounting Policies (continued)

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 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 plan for employees. The assets of the plan 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.

Research and development

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

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 section 26 of FRS 102 "Share-based Payment". 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.

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

3. Significant Accounting Policies (continued)

Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the year ended 31 December 2018, there were a couple of critical judgements or estimates, which are detailed below.

Deferred Tax

A deferred tax asset of \$4,527,799 was recognised as at 31 December 2018, in relation to the tax benefit of carried forward UK tax losses, which are expected to be utilised in the near future. Whilst there is some uncertainty over the expected amount of future taxable profits, it has been judged to be reasonably certain that the brought forward losses can be fully utilised within a reasonable timeframe. Further information on deferred tax is included above in the taxation section.

Warranty liability

A provision had been made as at 31 December 2017 in respect of estimated customer warranty and other customer reimbursement costs connected with a product hold notification issue which happened late in 2017. No provision remained in place at 31 December 2018 since all claims have been settled during the year ended 31 December 2018.

4. Turnover

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

	2018 \$	2017 \$
Europe	258,150	158,378
Asia	100,593,224	74,105,126
	<u>100,851,374</u>	<u>74,263,504</u>

All turnover is earned by DisplayLink (UK) Limited.

5. Profit before taxation

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

	2018 \$	2017 \$
Depreciation of tangible fixed assets:		
- owned	1,645,280	1,286,950
Amortisation of intangible fixed assets	646,440	434,047
Operating lease rentals – Land and buildings	1,179,537	1,077,296
Share-based payment charge	312,163	229,671
Foreign exchange losses/(gains)	130,244	(1,043,504)

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

	2018 \$	2017 \$
The analysis of auditors' remuneration is as follows:		
Fees payable to the company's auditors for the audit of the group's annual financial statements	33,052	39,550
Fees payable to the company's auditors for other services:		
- Tax compliance services	156,410	30,709
	<u>189,462</u>	<u>70,259</u>

6. Employees and directors

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

	Group		Company	
	2018 Number	2017 Number	2018 Number	2017 Number
Administration	26	24	22	20
Sales & Marketing	8	8	8	8
Research & Development	143	108	111	87
Production	11	9	11	9
	<u>188</u>	<u>149</u>	<u>152</u>	<u>124</u>

Their aggregate remuneration comprised:

	Group		Company	
	2018 \$	2017 \$	2018 \$	2017 \$
Wages and salaries	13,030,695	9,834,635	11,983,001	9,169,248
Social security costs	1,672,823	1,249,215	1,465,642	1,115,335
Other pension costs	1,447,177	1,115,193	1,447,177	1,115,193
Share-based payments (see note 22)	312,163	229,671	312,163	229,671
	<u>16,462,858</u>	<u>12,428,714</u>	<u>15,207,983</u>	<u>11,629,447</u>

Directors' remuneration	2018 \$	2017 \$
Aggregate emoluments	203,274	162,388
Company contributions to money purchase pension plans	7,447	4,932
	<u>210,721</u>	<u>167,320</u>
	2018 Number	2017 Number
The number of directors who:		
Are a member of a money purchase pension plan	<u>1</u>	<u>1</u>

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

6. Employees and directors (continued)

Remuneration of the highest paid director

	2018 \$	2017 \$
Aggregate emoluments	203,274	162,388
Company contributions to money purchase pension plans	7,447	4,932
	<u>210,721</u>	<u>167,320</u>

6 (2017 - 6) directors received no remuneration for their services to the group.

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

One director exercised 3,266,669 options over shares in the ultimate parent company, Displaylink Corp. during 2018.

Key Management Compensation

Key management includes the directors and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	2018 \$	2017 \$
Salaries and other short term benefits	1,548,738	1,454,130
Post-employment benefits	105,534	92,906
Share based payments	377,878	72,920
	<u>2,032,150</u>	<u>1,619,956</u>

7. Interest receivable and similar income

	2018 \$	2017 \$
Bank interest receivable	1,317,940	323,215
	<u>1,317,940</u>	<u>323,215</u>

8. Interest payable and similar expenses

There was no interest payable and similar expenses for either of the years ended 31 December 2018 or 2017.

9. Tax on profit

a) Analysis of credit in year

	2018 \$	2017 \$
Total tax credit		
Research and Development tax credit at 14.5%	119,083	-
Adjustments in respect of prior years	(80,098)	-
Movement in deferred tax asset	361,421	4,166,378
Foreign tax	(102,982)	(74,505)
Total tax credit	<u>297,424</u>	<u>4,091,873</u>

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

9. Tax on profit (continued)

The standard rate of tax for the year, based on the UK effective standard rates of corporation tax, is 19% (2017 – 19%). The actual tax credit for the year differs from the standard rate for the reasons set out in the following reconciliation.

	2018 \$	2017 \$
Profit before taxation	37,267,541	27,561,765
Tax on profit at effective standard rate	7,080,833	5,236,735
Factors affecting the charge:		
Disallowable expenses	97,087	110,137
Capital allowances in excess of depreciation	(28,499)	(56,690)
Research and development tax credit enhancement	(4,096,845)	(2,547,979)
Patent Box Deduction	(3,090,084)	(2,232,956)
Adjustments in respect of prior years	80,097	-
Utilisation of Brought forward tax losses	-	(441,196)
Recognition of deferred tax asset	(361,421)	(4,166,378)
Difference in overseas tax rates	21,408	6,454
Total tax credit for the year	(297,424)	(4,091,873)

b) Factors affecting future tax charges

Please see note 17 for an explanation of the Deferred Tax position.

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These changes included amongst other things, the reduction in the main rate of UK corporation tax to 19% with effect from 1 April 2017 and to 17% with effect from 1 April 2020, so the relevant deferred tax balances have been measured at 17% for the current year-end (2018: 17%).

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.

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

10. Intangible assets

	Purchased intellectual property \$	Office Software \$	Total \$
Group and company Cost			
At 1 January 2018	8,149,853	53,605	8,203,458
Additions	5,717,050	-	5,717,050
At 31 December 2018	<u>13,866,903</u>	<u>53,605</u>	<u>13,920,508</u>
Accumulated Amortisation			
At 1 January 2018	7,046,644	53,605	7,100,249
Charge for the year	646,440	-	646,440
At 31 December 2018	<u>7,693,084</u>	<u>53,605</u>	<u>7,746,689</u>
Net book value			
At 31 December 2018	<u>6,173,819</u>	<u>-</u>	<u>6,173,819</u>
At 31 December 2017	<u>1,103,209</u>	<u>-</u>	<u>1,103,209</u>

The individual intangible assets which are material to the financial statements are:

	Carrying amount		Remaining amortisation period	
	2018 \$	2017 \$	2018 years	2017 years
Purchased intellectual property				
Purchased IP for 5 th generation chip development	288,889	505,556	1.3	2.3
Purchased IP for 6 th generation chip development	5,533,937	-	3.0	-

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

11. Tangible assets

Group	Leasehold Improve- ments \$	R&D Equipment \$	Fixtures and Fittings \$	Computer Equipment \$	Prod'n Tooling \$	Total \$
Cost						
At 1 January 2018	1,172,119	2,248,430	590,361	2,102,262	3,133,660	9,246,832
Additions	210,922	714,762	175,885	616,601	850,323	2,568,493
Foreign exchange	(7,427)	(12,276)	(6,622)	(24,669)	-	(50,994)
At 31 December 2018	<u>1,375,614</u>	<u>2,950,916</u>	<u>759,624</u>	<u>2,694,194</u>	<u>3,983,983</u>	<u>11,764,331</u>
Accumulated Depreciation						
At 1 January 2018	256,948	1,340,298	304,401	1,449,203	2,784,968	6,135,818
Charge for the year	133,102	395,633	162,208	587,600	366,739	1,645,282
Foreign exchange	(523)	(9,276)	(3,137)	(14,397)	-	(27,333)
At 31 December 2018	<u>389,527</u>	<u>1,726,655</u>	<u>463,472</u>	<u>2,022,406</u>	<u>3,151,707</u>	<u>7,753,767</u>
Net book value						
At 31 December 2018	<u>986,087</u>	<u>1,224,261</u>	<u>296,152</u>	<u>671,788</u>	<u>832,276</u>	<u>4,010,564</u>
At 31 December 2017	<u>915,171</u>	<u>908,132</u>	<u>285,960</u>	<u>653,059</u>	<u>348,691</u>	<u>3,111,013</u>

Company	Leasehold Improve- ments \$	R&D Equipment \$	Fixtures and Fittings \$	Computer Equipment \$	Prod'n Tooling \$	Total \$
Cost						
At 1 January 2018	1,172,119	2,090,029	545,295	1,833,960	3,133,660	8,775,063
Additions		690,258	80,050	465,031	850,323	2,085,662
At 31 December 2018	<u>1,172,119</u>	<u>2,780,287</u>	<u>625,345</u>	<u>2,298,991</u>	<u>3,983,983</u>	<u>10,860,725</u>
Accumulated Depreciation						
At 1 January 2018	256,947	1,232,274	267,348	1,288,787	2,784,969	5,830,325
Charge for the year	118,258	353,237	148,935	507,058	366,739	1,494,227
At 31 December 2018	<u>375,205</u>	<u>1,585,511</u>	<u>416,283</u>	<u>1,795,805</u>	<u>3,151,708</u>	<u>7,324,512</u>
Net book value						
At 31 December 2018	<u>796,914</u>	<u>1,194,776</u>	<u>209,062</u>	<u>503,186</u>	<u>832,275</u>	<u>3,536,211</u>
At 31 December 2017	<u>915,172</u>	<u>857,755</u>	<u>277,947</u>	<u>545,212</u>	<u>348,690</u>	<u>2,944,776</u>

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

12. Investments

Company

Cost and net book value	\$
At 1 January 2018 and 31 December 2018	19,258

At 31 December 2018, 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 registered office of DisplayLink (Poland) Sp z.o.o. is Katowice, UL. Ligocka 103. The directors believe that the carrying value of this investment is supported by its underlying net assets.

13. Stocks

	Group and Company	
	2018	2017
	\$	\$
Raw materials and consumables	1,996,491	1,706,861
Work in progress	247,586	225,937
Finished goods and goods for resale	2,577,002	1,912,159
	<u>4,821,079</u>	<u>3,844,957</u>

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

14. Debtors

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Trade debtors	9,914,047	10,922,432	9,914,047	10,922,432
Amounts owed by group undertakings	-	-	-	-
Deferred Tax Asset	4,527,799	4,166,378	4,527,799	4,166,378
Research and development tax credit receivable	119,083	-	119,083	-
Other debtors	894,786	523,941	703,849	392,883
Prepayments and accrued income	1,779,812	1,309,895	1,770,607	1,308,688
	<u>17,235,527</u>	<u>16,922,646</u>	<u>17,035,385</u>	<u>16,790,381</u>

15. Creditors: Amounts falling due within one year

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Trade creditors	3,842,814	3,247,209	3,842,814	3,247,212
Amounts owed to group undertakings	5,172,236	4,152,432	5,210,860	4,215,519
Taxation and social security	671,699	499,956	671,699	499,956
Other creditors	3,609,399	1,418,612	3,609,399	1,418,612
Accruals and deferred income	2,331,168	1,854,268	2,207,375	1,765,560
	<u>15,627,316</u>	<u>11,172,477</u>	<u>15,542,147</u>	<u>11,146,859</u>

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

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

	Group and Company	
	2018	2017
	\$	\$
Other creditors	3,320,361	-
	<u>3,320,361</u>	<u>-</u>

17. Deferred tax asset

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

Group and company	Provided		Not provided	
	2018	2017	2018	2017
	\$	\$	\$	\$
Accelerated capital allowances	(289,546)	(296,941)	-	-
Trading losses	4,817,345	4,463,319	-	-
	<u>4,527,799</u>	<u>4,166,378</u>	<u>-</u>	<u>-</u>

At 31 December 2016, the Company and Group had not recognised a deferred tax asset even though the Company and Group made accounting profits in the previous financial years, owing to the fact that the company engages in significant amounts of R&D activity and grosses up its R&D costs by 230% as part of the United Kingdom's R&D tax regime, which meant that the company had historically made losses for tax purposes.

However, since 2017, the profitability of the Company is such that even after the deduction of the grossed up R&D costs plus the effect of the patent box deduction, taxable profits are calculated to arise, which will be offset in the year by brought forward loss relief. Forecasts for the next few years indicate that further taxable profits are expected to arise, meaning that further brought forward tax losses will be utilised. As it is reasonably certain that these losses will be utilised in the near future, no valuation allowance has been applied to this asset as at both 31 December 2018 and 31 December 2017.

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

18. Financial Instruments

		Group		Company	
		2018	2017	2018	2017
Financial assets that are debt instruments measured at amortised cost		\$	\$	\$	\$
- Trade debtors	14	9,914,047	10,922,432	9,914,047	10,922,432
- Other debtors	14	894,786	523,941	703,849	392,883
- Amounts owed by group undertakings	14	-	-	-	-
		<u>10,808,833</u>	<u>1,446,373</u>	<u>10,617,896</u>	<u>11,315,315</u>

		Group		Company	
		2018	2017	2018	2017
Financial liabilities measured at amortised cost		\$	\$	\$	\$
- Trade creditors	15	3,842,814	3,247,209	3,842,814	3,247,212
- Amounts owed to group undertakings	15	5,172,236	4,152,432	5,210,860	4,215,519
- Other creditors	15/16	3,382,073	1,418,612	3,382,073	1,418,612
Accruals and Deferred Income	15	2,331,168	1,854,268	2,207,375	1,765,560
		<u>14,728,291</u>	<u>10,672,521</u>	<u>14,643,122</u>	<u>10,646,903</u>

19. Called up share capital

Allotted, called up and fully paid:

	Group and Company	
	2018	2017
	\$	\$
9,337,223 (2017: 9,337,223) Ordinary shares of £1 each	17,166,021	17,166,021

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

20. Notes to the cash flow statement

The Company has taken advantage of the disclosure exemption under FRS 102 from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, include the Company's cash flows. The Company's shareholders have been notified and have raised no objections.

Reconciliation of operating profit to operating cash flows

	2018 \$	2017 \$
Profit for the financial year	37,564,965	31,653,638
Adjustments for:		
Tax on profit	(297,424)	(4,091,873)
Net interest income	(1,317,940)	(323,215)
Operating profit	35,949,601	27,238,550
Share-based payment charge	312,163	229,671
Depreciation and amortisation	2,291,720	1,720,997
(Profit) on disposal of tangible fixed assets	-	-
Foreign exchange losses/(gains)	52,017	(995,357)
(Increase) in debtors	87,525	(5,954,661)
(Increase) in stocks	(976,122)	(688,558)
Increase in creditors	1,423,485	4,148,927
Net cash inflow from operating activities	39,140,389	25,699,569

Analysis of cash flows

	2018 \$	2017 \$
Taxation		
Research and development tax credits received	-	1,128,915
Foreign tax paid	(102,983)	(74,505)
	(102,983)	1,054,410

Analysis and reconciliation of net debt

	1 January 2018 \$	Cash flow \$	Foreign exchange effect \$	31 December 2018 \$
Cash at bank and in hand	6,215,854	2,308,877	18,620	8,543,353
Investments	39,895,792	36,112,641	(84,462)	75,923,969
Total	46,111,646	38,421,518	(65,842)	84,467,322

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

21. Financial commitments

On October 5, 2015, DisplayLink (UK) Limited signed a lease agreement for new premises on the Cambridge Science Park. The lease is full repairing and lasts for 15 years, but the Company has the option to terminate the lease after 10 years.

Future minimum lease payments under non-cancellable operating leases are as follows:

Group	Land and buildings	
	2018	2017
	\$	\$
Payments due		
- Within one year	1,024,613	1,072,677
- Between two and five years	3,968,763	4,198,703
- Greater than 5 years	1,488,286	2,624,189
	<u>6,481,662</u>	<u>7,895,569</u>
Company	Land and buildings	
	2018	2017
	\$	\$
Payments due		
- Within one year	992,191	1,049,676
- Between two and five years	3,968,763	4,198,703
- Greater than 5 years	1,488,286	2,624,189
	<u>6,449,240</u>	<u>7,872,568</u>

At 31 December 2018, the group and the company had no capital commitments (2017 - \$nil).

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

22. Share based payments

Employees and some ex-employees of the group participate in share option plans 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. In the case of the 2004 Stock Option Plans only, 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 before the options vest.

In 2012, the 2012 Stock Option Plan was implemented by DisplayLink Corp. For existing employees, the intention was that this plan replaced the pre-existing option plans. In order to be granted share options in the 2012 plan, employees had to agree to forfeit shares in the old plan. 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 leaves the Company, all options will be forfeited.

In 2015, the 2015 Stock Option plan was implemented by DisplayLink Corp. As with previous plans, vesting takes place over 4 years. Where an employee leaves the company, all options will be forfeited.

All options granted under both 2012 and 2015 Stock Option Plans shall lapse, irrespective of their vesting status, if not exercised by 27 September 2018. Options are only exercisable on a change in control, if option holders remain employed or under contract at the time. In the event of a change in control, there would be a 1 year acceleration of vesting.

For EMI qualifying options within the 2015 stock option plan, an election was made in September 2018 under section 9.2 of the option plan to allow the options to be exercised in anticipation of an exit event. 15.8 million options were exercised at this time because of this election. For all other common stock options within the 2015 plan, as well as all options in the 2012 plan, the expiry dates of the majority of options were extended to September 2025 in September 2018.

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

	2018		2017	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at the beginning of the year	28,315,293	\$0.02	25,575,031	\$0.01
Granted during the year	5,541,030	\$1.25	3,953,885	\$0.06
Forfeited during the year	(2,453,166)	\$0.11	(1,124,456)	\$0.01
Exercised during the year	(15,773,387)	\$0.20	(89,167)	\$0.05
Outstanding at the end of the year	<u>15,629,770</u>	\$0.20	<u>28,315,293</u>	\$0.02
Exercisable at the end of the year	<u>350,250</u>	\$0.05	<u>581,082</u>	\$0.06

15,773,387 share options were exercised during 2018 (89,167 during 2017). The options outstanding at 31 December 2018 had a weighted average exercise price of \$0.20 (2017 - \$0.02) and a weighted average remaining contractual life of 6.6 years (2017 - 0.8 years). In 2018 the average exercise price of options granted was \$1.25 (2017 - \$0.06).

The notes on pages 15 to 30 form part of these financial statements.

DisplayLink (UK) Limited

Notes to the Financial Statements

Year Ended 31 December 2018

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

	Common stock May 2018
Weighted average share price	\$0.84
Weighted average exercise price	\$1.25
Expected volatility	45.0%
Expected life	1 year
Risk free rate	2.32%

Expected volatility was determined based on an average of the volatilities of peer group companies. 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.

The Group recognised total expenses of \$312,163 and \$229,671 (included within administrative expenses) related to equity-settled share-based payment transactions in 2018 and 2017 respectively. The costs are recharged from DisplayLink Corp. in connection with those staff employed by the Group. This charge included a reversal of \$351,047 of costs charged to administrative expenses in prior years, since the Group now no longer considers it likely that an exit event, which would allow the options to become exercisable, is imminent.

23. Related party transactions

During the year, the Group was charged an amount of \$5,052,974 (2017 - \$3,850,424) by DisplayLink Corp., the Group's immediate and ultimate parent undertaking under the inter-company services agreement in place between the two companies. The Group recharged out an amount of \$413,553 (2017 - \$262,618) to DisplayLink Corp. for 50% of the costs of the CEO for services provided to that company. The amounts owing at the year-end are \$5,172,236 (2017 - \$4,152,432) and are included within Creditors.

During the year, Martin Jackson, a director of the company, was Chairman of the Intellectual Property Committee. The fees he received for this work in 2018 totalled \$6,195 (2017 - \$5,536).

Employee loans in respect of stock options: -	Value of Loan \$	£	FX Rate
David King	3,832	2,937.79	1.3045
Andrew Hayes	5,774	4,426.37	1.3045
Edward Latimer	3,623	2,777.50	1.3045
Mindaugas Gerdauskas	3,563	2,731.51	1.3045
Nao Sakita	2,681	2,055.27	1.3045
Yohannes Gebrehiwet	5,803	4,448.68	1.3045
Total Loans	25,276		

24. Ultimate parent undertaking and controlling party

The immediate and ultimate parent company is DisplayLink Corp., a company incorporated in Washington, 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.

The notes on pages 15 to 30 form part of these financial statements.