



DisplayLink (UK) Limited  
Consolidated Financial Statements

For The Year Ended 31 December 2010

Registered in England & Wales Number 04811048



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# **DisplayLink (UK) Limited**

## **Consolidated Financial Statements**

**Year Ended 31 December 2010**

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# **DisplayLink (UK) Limited**

## **Officers And Professional Advisers**

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### **The Board Of Directors**

Alan Duncan  
Craig Ensley  
Mark Evans  
Henry Happel III  
Martin Jackson  
David Mooring

### **Registered Office**

Mount Pleasant House  
Mount Pleasant  
Cambridge  
CB3 0RN

### **Auditor**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Cambridge, UK

### **Bankers**

Lloyds TSB Bank Plc  
Sidney Street  
Cambridge  
CB2 3HQ

# DisplayLink (UK) Limited

## The Directors' Report

### Year Ended 31 December 2010

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The directors present their annual report and the financial statements of the group for the year ended 31 December 2010

#### Principal Activities

DisplayLink (UK) Limited ( 'DisplayLink' ) is a fabless semiconductor business, principally engaged in research and development and sales and marketing activities for its ASIC (Application Specific Integrated Circuit) chipsets and associated software, which deliver the display signal from computer to multiple display devices via USB and other protocols

#### Business Review

The group has grown steadily during the year. Revenue has increased to £9.4 million in 2010 from £7.5 million in 2009. This is as a result of the group's ASIC chipsets being incorporated into a greater number of devices, in turn being driven by increased acceptance of our technology by the display market.

Gross margins have risen from 70% in 2009 to 75% in 2010. This was achieved primarily through selling a higher proportion of the high margin second generation chip.

Net funds (cash and investments less debt) declined from £4.1 million at 31 December 2009 to (£0.1) million at 31 December 2010, a net cash outflow of £4.2 million. This was due to continued investment in research and development activities.

The average number of employees within the business increased from 74 in 2009 to 88 in 2010. This increase was due to the growth of the UI research & development team associated with the development of a 3<sup>rd</sup> generation chip in 2010.

The group now plans to build on its sales success in 2010 and grow revenues of its existing products, both through existing and new customers. The development of the 3<sup>rd</sup> generation chipset is progressing well. Sample product has been received and tested, and it is expected that the product will go into mass production in H2 2011. In addition, there are plans in place for development of further chipsets, which will build in the necessary new functionality and performance required to meet ongoing market requirements.

#### Going Concern

DisplayLink (UK) Limited is a wholly owned subsidiary of DisplayLink Corp. upon whom it is reliant for funding until it can reach a break even trading cash flow on a long term basis. During the period under review, the company and its subsidiary undertaking met their working capital requirements as a result of an injection of debt financing of \$3.0 million from Western Technology, Inc. in October 2010.

In the first half of 2011, the directors of DisplayLink Corp. have been working with existing investors to raise further funds. In February 2011 an April 2011, bridge loans were received by DisplayLink Corp. for \$4.0 million in total. On 6 June 2011, an \$8.0 million convertible loan funding round was closed by DisplayLink Corp. with existing investors, with \$4.0 million received in cash on 7 June 2011, and \$4.0 million exchanged for the previous bridge loans. The directors of DisplayLink Corp. believe that based upon cash flow forecasts this funding should be sufficient to allow the group to continue trading as a going concern through to at least the middle of 2012.

Having reviewed the financing strategy of its parent company and its plans to continue to support DisplayLink (UK) Limited and its subsidiary undertaking, the directors of the group have concluded that it is appropriate to prepare the accounts on a going concern basis. The conditions facing the group nevertheless give rise to a material uncertainty related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern and therefore it may, in the absence of other funding alternatives, be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern as it is not practicable to do so but would include writing down the carrying value of assets, including providing for any further liabilities that might arise.

#### Financial Risk Management Objectives and Policies

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

#### Competition risk

The group operates in a highly competitive market. The group is subject to the threat of its competitors launching new products in the market before the group correspondingly 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 in new product development to ensure that it has products at various stages of the product life cycle.

# DisplayLink (UK) Limited

## The Directors' Report

Year Ended 31 December 2010

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### Financial Risk Management Objectives and Policies (continued)

#### *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 and discussions with current and future investors in obtaining future funding via its ultimate parent company. The ultimate parent company considers new investment on a case by case basis.

#### *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 has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

#### *Interest rate risk*

The group has third party debt, but the interest rate on this debt is fixed for the duration of the loan, thus there is no interest rate risk.

#### *Foreign currency risk*

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. Such currency exposures have, to date, not been significant and therefore no specific foreign exchange hedging has been undertaken.

### Dividends

The directors do not recommend the payment of a dividend (2009 - £nil).

### Directors

The directors who served throughout the year and to the date of this report were -

Alan Duncan  
Craig Ensley  
Mark Evans  
Henry Happel III  
Martin Jackson  
David Mooring  
Graham O Keefe (resigned 8 March 2011)

### Directors' Indemnities

The group has made qualifying third party indemnity provisions for the benefit of its directors which remain in force at the date of this report.

# DisplayLink (UK) Limited

## The Directors' Report

Year Ended 31 December 2010

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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 elected to prepare the 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 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Auditor


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

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

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

Deloitte 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 by order of the directors



ALAN DUNCAN

Approved by the directors on 22 JUNE 2011

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

Year Ended 31 December 2010

We have audited the financial statements of DisplayLink (UK) Limited for the year ended 31 December 2010 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

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 parent 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.

### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's loss for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

### Emphasis of matter - Going concern

Without modifying our opinion, we draw attention to the disclosures made in note 1 of the financial statements concerning the group's ability to continue as a going concern. The group incurred a net loss of £4,702,769 (2009 - loss £5,724,398) during the year ended 31 December 2010 and continues to be dependent on the financial support of its immediate and ultimate parent company, DisplayLink Corp. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern as it is not practicable to determine or quantify them.


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

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

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**David Halstead FCA (Senior Statutory Auditor)**  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Cambridge, UK

23 June 2011

# DisplayLink (UK) Limited

## Consolidated Profit And Loss Account

Year Ended 31 December 2010

	Note	2010 £	2009 £
<b>Turnover</b>	<b>2</b>	<b>9,398,726</b>	<b>7,529,424</b>
Cost of sales		<u>(2,308,821)</u>	<u>(2,271,004)</u>
<b>Gross Profit</b>		<b>7,089,905</b>	<b>5,258,420</b>
Administrative expenses		<u>(12,841,140)</u>	<u>(12,408,729)</u>
<b>Operating Loss</b>	<b>3</b>	<b>(5,751,235)</b>	<b>(7,150,309)</b>
Interest receivable and similar income	6	24,424	47,526
Interest payable and similar charges	7	<u>(210,179)</u>	<u>(1,325)</u>
<b>Loss on Ordinary Activities Before Taxation</b>		<b>(5,936,990)</b>	<b>(7,104,108)</b>
Tax on loss on ordinary activities	8	1,234,221	1,379,710
<b>Loss for the Financial Year</b>	<b>19</b>	<b><u>(4,702,769)</u></b>	<b><u>(5,724,398)</u></b>

All activities derive from continuing operations

## Consolidated Statement Of Total Recognised Gains And Losses

Year Ended 31 December 2010

	Note	2010 £	2009 £
<b>Loss for the Financial Year</b>	<b>19</b>	<b>(4,702,769)</b>	<b>(5,724,398)</b>
Currency translation difference on foreign currency investments		<u>365</u>	<u>(2,937)</u>
<b>Total gains and losses recognised relating to the year</b>		<b><u>(4,702,404)</u></b>	<b><u>(5,727,335)</u></b>

The notes on pages 10 to 23 form part of these financial statements.



# DisplayLink (UK) Limited

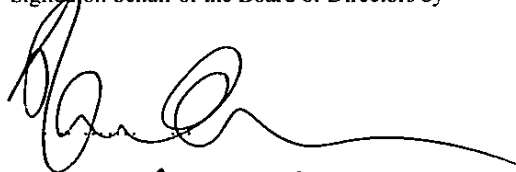
## Consolidated Balance Sheet

31 December 2010

	Note	2010 £	2009 £
<b>Fixed Assets</b>			
Intangible assets	10	1,286,026	921,365
Tangible assets	11	364,015	354,132
		<u>1,650,041</u>	<u>1,275,497</u>
<b>Current Assets</b>			
Stocks	13	647,871	968,164
Debtors	14	2,980,318	3,140,514
Short Term Investments – cash held on deposit		-	500,000
Cash at bank and in hand		1,798,887	3,632,551
		<u>5,427,076</u>	<u>8,241,229</u>
<b>Creditors: Amounts Falling due Within One Year</b>	15	<u>(5,725,240)</u>	<u>(4,624,682)</u>
<b>Net Current (Liabilities) Assets</b>		<u>(298,164)</u>	<u>3,616,547</u>
<b>Total Assets Less Current Liabilities</b>		<u>1,351,877</u>	<u>4,892,044</u>
<b>Creditors: Amounts Falling due after More than One Year</b>	16	<u>(2,001,833)</u>	<u>(1,058,889)</u>
<b>Net (Liabilities) Assets</b>		<u><u>(649,956)</u></u>	<u><u>3,833,155</u></u>
<b>Capital and Reserves</b>			
Called up share capital	18	9,337,223	9,337,223
Capital contribution	19	18,422,413	18,422,413
Other reserves	19	13,915	13,915
Profit and loss account	19	(28,423,507)	(23,940,396)
<b>Shareholders' (Deficit) Funds</b>	20	<u><u>(649,956)</u></u>	<u><u>3,833,155</u></u>

The financial statements of DisplayLink (UK) Limited, registered number 4811048, were approved by the Board of Directors and authorised for issue on **22 JUNE 2011**

Signed on behalf of the Board of Directors by -



Director **ALAN DUNCAN**

The notes on pages 10 to 23 form part of these financial statements.

# DisplayLink (UK) Limited

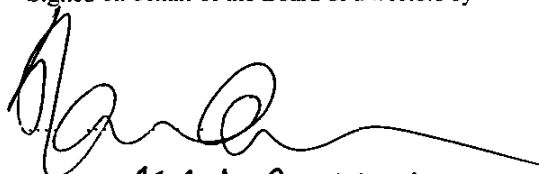
## Company Balance Sheet

31 December 2010

	Note	2010 £	2009 £
<b>Fixed Assets</b>			
Intangible assets	10	1,286,026	921,365
Tangible assets	11	328,274	334,684
Investments	12	11,627	11,627
		<u>1,625,927</u>	<u>1,267,676</u>
<b>Current Assets</b>			
Stocks	13	647,871	968,164
Debtors	14	2,968,533	3,173,656
Short Term Investments – cash held on deposit		-	500,000
Cash at bank and in hand		1,786,111	3,603,575
		<u>5,402,515</u>	<u>8,245,395</u>
<b>Creditors: Amounts Falling due Within One Year</b>	15	<u>(5,718,417)</u>	<u>(4,620,475)</u>
<b>Net Current (Liabilities) Assets</b>		<u>(315,902)</u>	<u>3,624,920</u>
<b>Total Assets Less Current Liabilities</b>		<u>1,310,025</u>	<u>4,892,596</u>
<b>Creditors: Amounts Falling due after More than One Year</b>	16	<u>(2,001,833)</u>	<u>(1,058,889)</u>
<b>Net (Liabilities) Assets</b>		<u>(691,808)</u>	<u>3,833,707</u>
<b>Capital and Reserves</b>			
Called up share capital	18	9,337,223	9,337,223
Capital contribution	19	18,422,413	18,422,413
Other reserves	19	13,915	13,915
Profit and loss account	19	(28,465,359)	(23,939,844)
<b>Shareholders' (Deficit) Funds</b>		<u>(691,808)</u>	<u>3,833,707</u>

The financial statements of DisplayLink (UK) Limited, registered number 4811048, were approved by the Board of Directors and authorised for issue on **22 JUNE 2011**

Signed on behalf of the Board of Directors by -

  
**ALAN DUNCAN**  
 Director

The notes on pages 10 to 23 form part of these financial statements.

# DisplayLink (UK) Limited

## Consolidated Cash Flow Statement

Year Ended 31 December 2010

	Note	2010 £	2009 £
Net cash outflow from operating activities	21	(4,589,495)	(7,664,565)
Returns on investments and servicing of finance	22	(15,799)	90,393
Taxation	22	1,380,702	1,037,439
Capital expenditure and financial investment	22	(968,966)	(336,245)
Cash outflow before management of liquid resources and financing		(4,193,558)	(6,872,978)
Management of liquid resources	22	500,000	3 564,528
Financing	22	1,859,894	4,904,151
(Decrease) increase in cash in the year	23	(1,833,664)	1,595 701

The notes on pages 10 to 23 form part of these financial statements.

# **DisplayLink (UK) Limited**

## **Notes To The Financial Statements**

### **Year Ended 31 December 2010**

#### **1. Accounting Policies**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted, which have been applied consistently throughout the current and preceding years are described 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 is reliant for funding until it can reach a break even trading cash flow on a long term basis. During the period under review, the company and its subsidiary undertaking met their working capital requirements as a result of an injection of debt financing of \$3.0 million from Western Technology, Inc. in October 2010.

In the first half of 2011, the directors of DisplayLink Corp. have been working with existing investors to raise further funds. In February 2011 and April 2011, bridge loans were received by DisplayLink Corp. for \$4.0 million in total. On 6 June 2011, an \$8.0 million convertible loan funding round was closed by DisplayLink Corp. with existing investors, with \$4.0 million received in cash on 7 June 2011, and \$4.0 million exchanged for the previous bridge loans. The directors of DisplayLink Corp. believe that based upon cash flow forecasts this funding should be sufficient to allow the group to continue trading as a going concern through to at least the middle of 2012.

Having reviewed the financing strategy of its parent company and its plans to continue to support DisplayLink (UK) Limited and its subsidiary undertaking, the directors of the group have concluded that it is appropriate to prepare the accounts on a going concern basis. The conditions facing the group nevertheless give rise to a material uncertainty related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern and therefore it may, in the absence of other funding alternatives, be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern as it is not practicable to do so but would include writing down the carrying value of assets, including providing for any further liabilities that might arise.

##### **Basis Of Consolidation**

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings 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.

##### **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

### Year Ended 31 December 2010

#### 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
Computer Equipment	-	50% straight line
Office software	-	25% straight line
Production Tooling	-	33% straight line

Assets in the course of construction are not depreciated until they are brought into use. 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.

##### 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. However, the group does not recognise revenue until any right of return has expired or it can reasonably estimate the likely level of returns.

##### Foreign Currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

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.

##### 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 leases 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.

# **DisplayLink (UK) Limited**

## **Notes To The Financial Statements**

### **Year Ended 31 December 2010**

#### **1 Accounting Policies (continued)**

##### **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

##### **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 Payment**

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 and 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

# DisplayLink (UK) Limited

## Notes To The Financial Statements

Year Ended 31 December 2010

### 2. Turnover

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

	2010 £	2009 £
Europe	37,503	43,006
Rest of World	9,361,223	7,486,418
	<u>9,398,726</u>	<u>7,529,424</u>

### 3. Operating Loss

Operating loss is stated after charging / (crediting)

	2010 £	2009 £
Depreciation of tangible fixed assets		
- owned	249,537	556,054
- leased	-	3,618
Amortisation of intangible fixed assets	431,173	49,647
(Profit) loss on disposal of tangible fixed assets	(2,589)	3,625
Research and development expenditure	7,567,598	5,669,373
Operating lease rentals – Land and buildings	395,939	276,872
Exceptional item – Settlement of intellectual property matter	-	1,705,321
Severance costs	61,487	-
	<u>61,487</u>	<u>-</u>

The analysis of auditor's remuneration is as follows:

Fees payable to the company's auditor for the audit of the group's annual accounts	<u>21,000</u>	<u>19,000</u>
Non audit fees - Tax services	<u>32,400</u>	<u>21,450</u>

Fees payable to Deloitte LLP and their associates for non-audit services to the company are not required to be disclosed because the 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:

	2010 Number	2009 Number
Administration	17	12
Sales and marketing	6	7
Research and development	65	55
	<u>88</u>	<u>74</u>

# DisplayLink (UK) Limited

## Notes To The Financial Statements

Year Ended 31 December 2010

### 4. Staff Costs (continued)

Their aggregate remuneration comprised

	2010 £	2009 £
Wages and salaries	3,968,088	3,298,097
Social security costs	455,546	378,639
Other pension costs	171,503	151,317
Share-based payments (see note 25)	69,597	45,246
	<u>4,664,734</u>	<u>3,873,299</u>

### 5. Directors' Emoluments

Directors' remuneration	2010 £	2009 £
Emoluments	103,889	-
Company contributions to money purchase pension schemes	2,310	-
	<u>106,199</u>	<u>-</u>

The number of directors who:

	Number	Number
Are a member of a money purchase pension scheme	<u>1</u>	<u>-</u>

### 6. Interest Receivable And Similar Income

	2010 £	2009 £
Bank interest receivable	<u>24,424</u>	<u>47,526</u>

### 7. Interest Payable And Similar Charges

	2010 £	2009 £
Interest on loans	44,009	1,325
Amortisation of loan issue costs	4,038	-
Foreign exchange loss	12,436	-
Share based financing costs associated with loans	149,696	-
	<u>210,179</u>	<u>1,325</u>



# DisplayLink (UK) Limited

## Notes To The Financial Statements

Year Ended 31 December 2010

### 8 Tax On Loss On Ordinary Activities

#### a) Analysis of credit in year

	2010 £	2009 £
<b>Current tax credit</b>		
Research and Development tax credit @ 14%	1,234,890	1,009,420
Adjustments in respect of prior years	-	382,963
	<u>1,234,890</u>	<u>1,392,383</u>
Foreign tax	(669)	(12,673)
<b>Total current tax credit</b>	<u>1,234,221</u>	<u>1,379,710</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 28% (2009 – 28%) The actual tax credit for the year differs from the standard rate for the reasons set out in the following reconciliation

	2010 £	2009 £
<b>Loss on ordinary activities before tax</b>	<u>5,936,990</u>	<u>7,104,108</u>
Tax on loss on ordinary activities at standard rate	1,662,357	1,989,150
Factors affecting the charge		
Disallowable expenses	(21,531)	(14,245)
Tax losses carried forward	(245,445)	(727,089)
Capital allowances in deficit (excess) of depreciation	3,890	(97,287)
Other timing differences	-	3,457
Research and development tax credit enhancement	(176,414)	(144,203)
Adjustment in respect of prior years	-	382,963
Difference in overseas tax rates	11,364	(13,036)
<b>Current tax credit for the year</b>	<u>1,234,221</u>	<u>1,379,710</u>

#### b) Factors affecting future tax charges

At 31 December 2010 the group has an unrecognised deferred tax asset in respect of tax losses amounting to £3 522 080 (2009 - £3 552 377) 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)

On 23 March 2011 the UK Government announced that the main rate of corporation tax would reduce to 26% with effect from 1 April 2011 with subsequent 1% reductions per annum to reach 23% with effect from 1 April 2014 These tax rate reductions had not been substantively enacted at the balance sheet date and therefore have not been reflected in the financial statements The effective tax rate for the year ending 31 December 2011 is expected to reduce accordingly

### 9. Profit Attributable To The Company

The loss for the financial year dealt with in the financial statements of the parent company was £4 743 035 (2009 - £5 710 427) 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 the losses stated above Accordingly no parent company statement of total recognised gains and losses is provided

# DisplayLink (UK) Limited

## Notes To The Financial Statements

Year Ended 31 December 2010

### 10. Intangible Fixed Assets

	Purchased intellectual property £
<b>Group and company</b>	
<b>Cost</b>	
At 1 January 2010	971,012
Additions	795,834
At 31 December 2010	1,766,846
<b>Amortisation</b>	
At 1 January 2010	49,647
Charge for the year	431,173
At 31 December 2010	480,820
<b>Net book value</b>	
At 31 December 2010	1,286,026
At 31 December 2009	921,365

### 11. Tangible Fixed Assets

Group	Leasehold Improve- ments £	R&D Equipment £	R&D Software £	Fixtures and Fittings £	Office Software £	Office IT Equipment £	Prod'n Tooling £	Total £
<b>Cost</b>								
At 1 January 2010	410,652	227,828	447,799	248,133	19,705	242,545	79,340	1,676,002
Additions	-	135,761	1,950	6,888	2,386	116,008	-	262,993
Disposals	-	(3,527)	-	-	-	(10,610)	-	(14,137)
Foreign exchange	-	-	-	54	-	236	-	290
At 31 December 2010	410,652	360,062	449,749	255,075	22,091	348,179	79,340	1,925,148
<b>Depreciation</b>								
At 1 January 2010	410,652	133,341	364,147	200,088	12,302	172,689	28,651	1,321,870
Charge for the year	-	56,402	44,075	36,442	3,079	83,093	26,446	249,537
Disposals	-	(1,370)	-	-	-	(9,066)	-	(10,436)
Foreign exchange	-	-	-	23	-	139	-	162
At 31 December 2010	410,652	188,373	408,222	236,553	15,381	246,855	55,097	1,561,133
<b>Net book value</b>								
At 31 December 2010	-	171,689	41,527	18,522	6,710	101,324	24,243	364,015
At 31 December 2009	-	94,487	83,652	48,045	7,403	69,856	50,689	354,132

# DisplayLink (UK) Limited

## Notes To The Financial Statements

Year Ended 31 December 2010

### 11. Tangible Fixed Assets (continued)

Company	Leasehold Improve- ments £	R&D Equipment £	R&D Software £	Fixtures and Fittings £	Office Software £	Office IT Equipment £	Prod'n Tooling £	Total £
<b>Cost</b>								
At 1 January 2010	410,652	227,828	447,799	239,385	19,705	219,480	79,340	1,644,189
Additions	-	135,761	1,950	-	2,386	87,312	-	227,409
Disposals	-	(3,527)	-	-	-	(10,610)	-	(14,137)
At 31 December 2010	<u>410,652</u>	<u>360,062</u>	<u>449,749</u>	<u>239,385</u>	<u>22,091</u>	<u>296,182</u>	<u>79,340</u>	<u>1,857,461</u>
<b>Depreciation</b>								
At 1 January 2010	410,652	133,341	364,147	197,820	12,302	162,592	28,651	1,309,505
Charge for the year	-	56,402	44,075	33,582	3,079	66,534	26,446	230,118
Disposals	-	(1,370)	-	-	-	(9,066)	-	(10,436)
At 31 December 2010	<u>410,652</u>	<u>188,373</u>	<u>408,222</u>	<u>231,402</u>	<u>15,381</u>	<u>220,060</u>	<u>55,097</u>	<u>1,529,187</u>
<b>Net book value</b>								
At 31 December 2010	<u>-</u>	<u>171,689</u>	<u>41,527</u>	<u>7,983</u>	<u>6,710</u>	<u>76,122</u>	<u>24,243</u>	<u>328,274</u>
At 31 December 2009	<u>-</u>	<u>94,487</u>	<u>83,652</u>	<u>41,565</u>	<u>7,403</u>	<u>56,888</u>	<u>50,689</u>	<u>334,684</u>

### 12. Fixed Asset Investments

Company	£
<b>Cost and net book value</b>	
At 1 January 2010 and 31 December 2010	<u>11,627</u>

At 31 December 2010, 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 Corp group.

### 13. Stocks

	Group		Company	
	2010 £	2009 £	2010 £	2009 £
Raw materials and consumables	323,189	186,959	323,189	186,959
Work in progress	38,537	72,765	38,537	72,765
Finished goods and goods for resale	286,145	708,440	286,145	708,440
	<u>647,871</u>	<u>968,164</u>	<u>647,871</u>	<u>968,164</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

Year Ended 31 December 2010

### 14. Debtors

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Trade debtors	1,244,570	1,329,952	1,244,570	1,329,952
Amounts owed from subsidiary undertaking	-	-	15,133	43,278
VAT receivable	36,730	42,041	20,014	36,230
Research and development tax credit receivable	1,234,890	1,381,371	1,234,890	1,381,371
Other debtors	113,920	109,094	103,719	105,635
Prepayments and accrued income	350,208	278,056	350,208	277,190
	<u>2,980,318</u>	<u>3,140,514</u>	<u>2,968,533</u>	<u>3,173,656</u>

### 15. Creditors Amounts Falling Due Within One Year

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Loan (see note 16)	655,102	-	655,102	-
Trade creditors	382,627	322,908	382,627	322,908
Amounts owed to parent undertaking	2,925,240	2,725,205	2,925,240	2,725,205
Other taxation and social security	140,223	117,411	140,223	117,411
Other creditors	1,299,830	804,539	1,299,830	804,539
Accruals and deferred revenue	322,218	654,619	315,395	650,412
	<u>5,725,240</u>	<u>4,624,682</u>	<u>5,718,417</u>	<u>4,620,475</u>

### 16 Creditors Amounts Falling Due After More Than One Year

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Other creditor	781,022	1,058,889	781,022	1,058,889
Loan	1,220,811	-	1,220,811	-
	<u>2,001,833</u>	<u>1,058,889</u>	<u>2,001,833</u>	<u>1,058,889</u>

The loan to Western Technology, Inc is secured by a fixed charge over the DisplayLink Corp group's assets

Borrowings are repayable as follows

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
<b>Loan</b>				
Between one and two years	738,554	-	738,554	-
Between two and five years	482,257	-	482,257	-
	<u>1,220,811</u>	<u>-</u>	<u>1,220,811</u>	<u>-</u>
On demand or within one year	655,102	-	655,102	-
	<u>1,875,913</u>	<u>-</u>	<u>1,875,913</u>	<u>-</u>

# DisplayLink (UK) Limited

## Notes To The Financial Statements

Year Ended 31 December 2010

### 17 Deferred Tax Asset

The deferred tax asset provided for and not provided is as follows

Group and company	Provided		Not provided	
	2010	2009	2010	2009
	£	£	£	£
Accelerated capital allowances	(25,234)	(22,561)	-	-
Trading losses	25,234	22,561	3,522,080	3,552,377
	<u>-</u>	<u>-</u>	<u>3,522,080</u>	<u>3,552,377</u>

At 31 December 2010 and 31 December 2009, the company and group had not recognised a deferred tax asset as there is uncertainty as to whether sufficient taxable profits will be realised in the foreseeable future

### 18. Called Up Share Capital

#### Authorised

	2010	2009
	£	£
10,000,000 Ordinary shares of £1 each	<u>10,000,000</u>	<u>10,000,000</u>

#### Allotted, called up and fully paid:

	2010	2009
	£	£
9,337,223 Ordinary shares of £1 each	<u>9,337,223</u>	<u>9,337,223</u>

### 19. Statement Of Movement On Reserves

Group	Capital Contribution £	Other Reserves £	Profit and Loss account £
At 1 January 2010	18,422,413	13,915	(23,940,396)
Loss for the financial year	-	-	(4,702,769)
Credit to equity for equity settled share-based payments (note 25)	-	-	219,293
Currency translation difference on foreign currency net investments	-	-	365
At 31 December 2010	<u>18,422,413</u>	<u>13,915</u>	<u>(28,423,507)</u>

Company	Capital Contribution £	Other Reserves £	Profit and Loss account £
At 1 January 2010	18,422,413	13,915	(23,939,844)
Loss for the financial year	-	-	(4,743,035)
Credit to equity for equity settled share-based payments	-	-	217,520
At 31 December 2010	<u>18,422,413</u>	<u>13,915</u>	<u>(28,465,359)</u>

# DisplayLink (UK) Limited

## Notes To The Financial Statements

Year Ended 31 December 2010

### 20. Reconciliation Of Movements In Consolidated Shareholders' (Deficit) Funds

	2010 £	2009 £
Loss for the financial year	(4,702,769)	(5,724,398)
Capital contribution received from parent undertaking	-	4,908,578
Credit to equity for equity settled share-based payments (see note 25)	219,293	46,246
Currency translation difference on foreign currency net investments	365	(2,937)
Net reduction in shareholders' (deficit) funds	(4,483,111)	(773,511)
Opening shareholders' funds	3,833,155	4,606,666
Closing shareholders' (deficit) funds	(649,956)	3,833,155

### 21 Reconciliation Of Operating Loss To Operating Cash Flows

	2010 £	2009 £
Operating loss	(5,751,235)	(7,150,309)
Share-based payment charge	69,597	45,246
Depreciation and amortisation	680,710	609,319
(Profit) loss on disposal of tangible fixed assets	(2,589)	3,625
Foreign exchange losses (gains)	237	(1,091)
Decrease (increase) in debtors	9,929	(936,841)
Decrease in stocks	320,293	77,365
Decrease in creditors	83,563	(311,879)
Net cash outflow from operating activities	(4,589,495)	(7,664,565)

### 22. Analysis Of Cash Flows

	2010 £	2009 £
<b>Returns on investments and servicing of finance</b>		
Interest received	28,210	91,718
Interest paid	(44,009)	(1,325)
<b>Net cash (outflow) inflow</b>	(15,799)	90,393
<b>Taxation</b>		
Research and development tax credits received	1,381,371	1,050,112
Foreign tax paid	(669)	(12,673)
	1,380,702	1,037,439
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(262,993)	(168,664)
Proceeds from sale of tangible fixed assets	6,290	2,297
Purchase of intangible fixed assets	(712,263)	(169,878)
<b>Net cash outflow</b>	(968,966)	(336,245)
<b>Management of liquid resources</b>		
Movement on short term investments	500,000	3,564,528

# DisplayLink (UK) Limited

## Notes To The Financial Statements

### Year Ended 31 December 2010

#### 22 Analysis Of Cash Flows (continued)

	2010 £	2009 £
<b>Financing</b>		
Capital contribution received from parent undertaking	-	4,908,578
Capital element of finance lease rental payments	-	(4,427)
New loan received	1,903,795	-
Loan issue costs paid	(43,901)	-
<b>Net cash inflow</b>	<b>1,859,894</b>	<b>4,904,151</b>

#### 23 Analysis And Reconciliation Of Net (Debt) Funds

	1 January 2010 £	Cash flow £	Other non-cash changes £	31 December 2010 £
Cash in hand at bank	3,632,551	(1,833,664)	-	1,798,887
Debt due after 1 year	-	(1 204 792)	(16,019)	(1,220,811)
Debt due within 1 year	-	(655,102)	-	(655,102)
Current asset investments	500,000	(500,000)	-	-
	<b>4,132,551</b>	<b>(4,193,558)</b>	<b>(16,019)</b>	<b>(77,026)</b>
			2010 £	2009 £
(Decrease) increase in cash in the year			(1,833,664)	1,595,701
Cash outflow from decrease in lease financing			-	4,427
Cash inflow from decrease in liquid resources			(500,000)	(3 564 528)
Cash inflow from increase in debt financing			(1,859,894)	-
Amortisation of loan issue costs			(4,038)	-
Foreign exchange loss on debt financing			(12,436)	-
Accrued loan issue costs			455	-
Movement in net funds in year			<b>(4,209,577)</b>	<b>(1,964,400)</b>
<b>Net funds at 1 January</b>			<b>4,132,551</b>	<b>6,096,951</b>
<b>Net (debt) funds at 31 December</b>			<b>(77,026)</b>	<b>4,132,551</b>

#### 24 Financial Commitments

Annual commitments under non-cancellable operating leases are as follows

Group	Land and buildings 2010 £	2009 £
Expiry date - Within one year	<b>240,478</b>	<b>236,655</b>
Company	Land and buildings 2010 £	2009 £
Expiry date - Within one year	<b>230,820</b>	<b>232,275</b>

At 31 December 2010, the group and the company had no capital commitments (2009 - £nil)

# DisplayLink (UK) Limited

## Notes To The Financial Statements

Year Ended 31 December 2010

### 25. Share Based Payments

Employees of the group participate in share option schemes of DisplayLink Corp. 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.

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

	2010		2009	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at the beginning of the year	17,839,125	\$0.08	15,392,833	\$0.08
Granted during the year	9,864,000	\$0.05	3,094,000	\$0.08
Forfeited during the year	(592,085)	\$0.06	(298,563)	\$0.07
Exercised during the year	(20,833)	\$0.06	(349,145)	\$0.04
Outstanding at the end of the year	<u>27,090,207</u>	\$0.07	<u>17,839,125</u>	\$0.08
Exercisable at the end of the year	<u>14,520,853</u>	\$0.08	<u>11,767,646</u>	\$0.08

The weighted average share price at the date of exercise for share options exercised during the year was \$0.07 (2009 - \$0.07). The options outstanding at 31 December 2010 had a weighted average exercise price of \$0.07 (2009 - \$0.08) and a weighted average remaining contractual life of 9.1 years (2009 - 8.1 years). In 2010, options were granted on 15 June, 28 July and 26 August with estimated fair values of £159,756. In 2009, options were granted on 12 January, 1 February, 23 February, 18 March, 23 April and 9 December with estimated fair values of £71,076.

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

	2010	2009
Weighted average share price	\$0.05	\$0.07
Weighted average exercise price	\$0.05	\$0.07
Expected volatility	65%	60%
Expected life	4 years	4 years
Risk free rate	1.08%-1.68%	1.27%-1.69%

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. 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 £69,597 and £45,246 included within administrative expenses related to equity-settled share-based payment transactions in 2010 and 2009 respectively.

The group also recognised total expenses of £149,696 within interest payable and similar charges in 2010 (2009 - £nil). This charge was in respect of share warrants issued to a lender in connection with the loan facility provided to the group in 2010.



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# **DisplayLink (UK) Limited**

## **Notes To The Financial Statements**

**Year Ended 31 December 2010**

### **26. Related Party Transactions**

During the year the group was charged £2 697,206 (2009 - £2 779 500) 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 £2,925,240 (2009 - £2,725,205) and are included within Creditors.

During the year the group did not receive a capital contribution (2009 - £4,908 578) from DisplayLink Corp.

### **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.