

**Company Registration No 04724479**

**CYAN TECHNOLOGY LIMITED**

**Report and Financial Statements**

**31 December 2010**

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# **CYAN TECHNOLOGY LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2010**

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# **CYAN TECHNOLOGY LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2010**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

Kenn Lamb  
John Read

#### **SECRETARY**

Capita Company Secretarial Services Limited

#### **REGISTERED OFFICE**

Buckingway Business Park  
Swavesey  
Cambridge  
CB4 5UG

#### **BANKERS**

Barclays Bank  
Chesterton Road  
Cambridge

#### **AUDITOR**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Cambridge

# **CYAN TECHNOLOGY LIMITED**

## **DIRECTORS' REPORT**

The directors presents their annual report on the affairs of the company, together with the financial statements and auditor's report for the year ended 31 December 2010. This report has been prepared in accordance with the special provisions applicable to companies subject to the small companies regime.

## **PRINCIPAL ACTIVITY**

The company's principal activity during the year was the specialisation in the development of wireless monitoring and control products for managing lighting systems and for monitoring automated meter reading.

## **REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS**

- Substantial progress in adoption of Cyan lighting control products made in Q4 of 2010
- Initial order received for 10,000 units for our wireless monitoring and control system for outdoor public lighting from India
- An initial order from China for 10,000 units for our wireless monitoring and control system for outdoor public lighting, with an initial project requirement of up to 200,000 units over the course of the next 18 months
- Memorandum of Understanding entered into to establish a partnership with a large Indian business whose lighting division has a contract to replace up to 375,000 street lights in one City

Kenn Lamb, CEO of Cyan, commented

"I am delighted with the progress that Cyan made in the final quarter of 2010 and we have seen substantial momentum and upswing in order enquiries in the first quarter of 2011. Despite a difficult two years for the Group, I am now convinced that 2011 will be a major turning point for us. Our order book for lighting control products is growing strongly, in particular from China and India where we are increasingly well positioned with Utility Companies and Government Departments considering our electricity metering solutions.

For the first time in Cyan's trading history it is both mine and the board's view that now is the right time and that we have the right products and are engaged in the right markets. With each new customer and with multiple new prospects engaging we are confident that Cyan is now well positioned to deliver substantial shareholder value."

The trading results for the year together with the company's financial position at the end of the year are shown on pages 7 and 8.

The directors draw attention to the disclosures in note 1 to these financial statements concerning the ability of the company to continue as a going concern.

## **DIVIDENDS**

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

## **DIRECTORS**

The directors, who served throughout the year unless otherwise stated, are listed below.

Kenn Lamb  
John Read

# **CYAN TECHNOLOGY LIMITED**

## **DIRECTORS' REPORT**

### **AUDITOR**

In the case of each of the persons who are directors of the company at the date when this report is approved

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware, and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) and to establish that the company's auditor is aware of that information

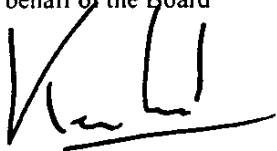
This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting

Approved by the Board of Directors  
and signed on behalf of the Board

Director

25 March 2011

A handwritten signature in black ink, appearing to be 'K. L.', written over a horizontal line.

**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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CYAN TECHNOLOGY LIMITED**

We have audited the financial statements of Cyan Technology Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 15. 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 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 company's affairs as at 31 December 2010 and of its 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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CYAN TECHNOLOGY LIMITED (CONTINUED)**

### **Emphasis of matter – Going concern**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The company is reliant on financial support from its parent company, Cyan Holdings plc. Cyan Holdings plc incurred a consolidated net loss of £2,648,116 during the year ended 31 December 2010 and, as of that date, the Cyan Holdings plc group cash balance was £1,484,437. In making their assessment of whether the application of the going concern assumption is appropriate, the directors have referred to the Cyan Holdings plc group's business plan and cash flow forecast, which assumes a certain level of sales at a certain gross margin and a need in the foreseeable future for additional funding. There is a significant risk that the actual level of sales achieved is materially lower than is assumed in the business plan or that the margins may be significantly lower than planned. In addition, there is a risk that the required level of additional funding will not be received on a sufficiently timely basis or will not be received at all. Consequently Cyan Holdings plc may not be able to supply the company with the financial support required. These conditions indicate the existence of a material uncertainty which may cast significant doubt upon the company's ability to continue as a going concern. The financial statements do not contain the adjustments that would result if the company was unable to continue as a going concern. In the event the company ceases to be a going concern, the adjustments would include writing down the carrying value of assets, including stock, to their recoverable amount and providing for any further liabilities that might arise.

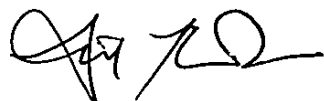
### **Opinion on other matter prescribed by the Companies Act 2006**

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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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



Stuart Henderson (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Cambridge, United Kingdom

25 March 2011

# CYAN TECHNOLOGY LIMITED

## PROFIT AND LOSS ACCOUNT Year ended 31 December 2010

|                                                        | Note | 2010<br>£                 | 2009<br>£                 |
|--------------------------------------------------------|------|---------------------------|---------------------------|
| <b>TURNOVER: continuing operations</b>                 | 2    | 141,916                   | 91,815                    |
| Cost of sales                                          |      | <u>(101,258)</u>          | <u>(58,745)</u>           |
| Gross profit                                           |      | 40,658                    | 33,070                    |
| Operating costs                                        |      |                           |                           |
| Research and development costs                         |      | (1,737,703)               | (1,532,669)               |
| Other                                                  |      | <u>(1,162,001)</u>        | <u>(1,143,402)</u>        |
|                                                        |      | <u>(2,899,704)</u>        | <u>(2,676,071)</u>        |
| <b>OPERATING LOSS: continuing operations</b>           |      | <u>(2,859,046)</u>        | <u>(2,643,001)</u>        |
| Interest payable and similar charges                   | 4    | <u>(53)</u>               | <u>-</u>                  |
| <b>LOSS ON ORDINARY ACTIVITIES<br/>BEFORE TAXATION</b> | 5    | <u>(2,859,099)</u>        | <u>(2,643,001)</u>        |
| Tax on loss on ordinary activities                     | 6    | <u>304,537</u>            | <u>482,851</u>            |
| <b>LOSS FOR THE FINANCIAL YEAR</b>                     | 13   | <u><u>(2,554,562)</u></u> | <u><u>(2,160,150)</u></u> |

There were no recognised gains or losses other than those recorded above. Consequently, no statement of total recognised gains and losses has been presented.

# CYAN TECHNOLOGY LIMITED

## BALANCE SHEET 31 December 2010

|                                                                     | Note | 2010<br>£           | 2009<br>£           |
|---------------------------------------------------------------------|------|---------------------|---------------------|
| <b>FIXED ASSETS</b>                                                 |      |                     |                     |
| Tangible assets                                                     | 8    | <u>26,626</u>       | <u>34,226</u>       |
| <b>CURRENT ASSETS</b>                                               |      |                     |                     |
| Stocks                                                              | 9    | 880,585             | 835,166             |
| Debtors                                                             | 10   | 348,606             | 524,614             |
| Cash at bank and in hand                                            |      | <u>136,283</u>      | <u>74,835</u>       |
|                                                                     |      | <u>1,365,474</u>    | <u>1,434,615</u>    |
| <b>CREDITORS: amounts falling due within one year</b>               | 11   | <u>(19,139,984)</u> | <u>(16,759,276)</u> |
| <b>NET CURRENT LIABILITIES</b>                                      |      | <u>(17,774,510)</u> | <u>(15,324,661)</u> |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES, BEING NET LIABILITIES</b> |      | <u>(17,747,884)</u> | <u>(15,290,435)</u> |
| <b>CAPITAL AND RESERVES</b>                                         |      |                     |                     |
| Called up share capital                                             | 12   | 1,000               | 1,000               |
| Profit and loss account                                             | 13   | (18,225,883)        | (15,671,321)        |
| Capital contribution reserve                                        | 13   | <u>476,999</u>      | <u>379,886</u>      |
| <b>SHAREHOLDERS' DEFICIT</b>                                        | 14   | <u>(17,747,884)</u> | <u>(15,290,435)</u> |

The financial statements of Cyan Technology Limited (registered number 4724479) were approved by the Board of Directors and authorised for issue on 25 March 2011

They were signed on its behalf by

  
Kenn Lamb  
Director

25 March 2011

**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 are described below and have been applied consistently in the current and prior year

**Going concern**

The company is currently dependent on financial support from its parent company, Cyan Holdings plc. The directors have obtained written confirmation from Cyan Holdings plc that financial support will be provided for a period of not less than 12 months from the date of signing these financial statements. However the financial statements of Cyan Holdings plc for the year-ended 31 December 2010 contained the following statement concerning that company's ability to continue as a going concern

*The directors have prepared a business plan and cash flow forecast for the period to 31 December 2012. The forecast contains certain assumptions about the level of future sales and the level of gross margins and also identified the need for additional finance to fund working capital within the next six months. These assumptions are the directors' best estimate of the future development of the business.*

*The directors acknowledge that the Group is trading in a difficult economic environment and in markets that are new to the Group. This may impact both the Group's ability to generate positive cashflow and to raise new finance. There is a significant risk that the level of sales achieved is materially lower than the level forecast or at materially lower margins. The directors have taken steps to satisfy themselves about the robustness of sales forecasts but acknowledge that the timing of customer orders in the Group's target markets is inherently uncertain. In addition, the directors have been in communication with a number of potential investors, including current shareholders, who have expressed interest in providing the necessary funding upon evidence of firm sales orders. There does remain a significant risk that the required level of funding will not be received in the necessary timescales or at all. The directors are of the opinion that this business plan is achievable. On this basis, the directors have assumed that the company is a going concern.*

Consequently there is a risk that Cyan Holdings plc may be unable to provide the necessary support for Cyan Technology Limited

There is a material uncertainty related to the assumptions described above which may cast significant doubt on the company's ability to continue as a going concern and, therefore, it may 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 company was unable to continue as a going concern. In the event the company ceased to be a going concern, the adjustments would include writing down the carrying value of assets, including stocks, to their recoverable amount and providing for any further liabilities that might arise

**Accounting convention**

The financial statements are prepared under the historical cost convention

**Cash flow statement**

Under FRS 1 (revised 1996) 'Cash flow statements' the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements, which includes a consolidated cash flow statement

# CYAN TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

### 1 ACCOUNTING POLICIES (continued)

#### Related party transactions

As the company is a wholly owned subsidiary of Cyan Holdings plc, the company has taken advantage of the exemption contained in FRS 8 'Related party disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Cyan Holdings plc, within which this company is included, can be obtained from the address given in note 15.

#### Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation or any provision for impairment. Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

|                                 |                         |
|---------------------------------|-------------------------|
| Leasehold property improvements | 20% straight line basis |
| Office equipment                | 50% straight line basis |
| Plant and machinery             | 25% straight line basis |
| Fixtures and fittings           | 25% straight line basis |

#### Stocks

Stocks are stated at the lower of cost and net realisable value.

#### Research and development

Research and development expenditure is written off to the profit and loss account as incurred.

#### Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Translation differences arising are dealt with in the profit and loss account.

#### Taxation

Current, 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 provided in full on timing differences, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### Leases

Operating leases are charged to the profit and loss account evenly over the period of the lease.

#### Pension costs

The company participates in a defined contribution pension scheme. The amount charged to the profit and loss account in respect of pension costs is the contribution paid.

# CYAN TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2010

### 1. ACCOUNTING POLICIES (continued)

#### Share-based payments

The company has applied the requirements of FRS20 (IFRS2) Share-based Payment and UITF Abstract 44

The company issues share-based payments to certain employees that are settled in equity of the parent company. 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 grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company'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 option 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.

#### Turnover

Turnover is measured at the fair value received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Sales of goods are recognised when the risks and rewards of ownership are transferred.

### 2. TURNOVER

The turnover is attributable to the company's principal activity. A geographic analysis of turnover has not been provided on the grounds that it would be seriously prejudicial to the interests of the company to do so.

### 3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

|                                 | 2010<br>£      | 2009<br>£      |
|---------------------------------|----------------|----------------|
| <b>Directors' remuneration</b>  |                |                |
| Compensation for loss of office | -              | 11,000         |
| Emoluments                      | 261,831        | 321,880        |
|                                 | <u>261,831</u> | <u>332,880</u> |

The aggregate emoluments of the highest paid director was £211,831 (2009 £210,720). The contribution of the company to money purchase schemes for the highest paid director was £4,710 (2009 £1,884). The highest paid director did not exercise any share options in the year (2009 none). The highest paid director received no beneficial interests in shares of the parent company during the year under a long-term incentive scheme (2009 nil).

|                                                                 | No.              | No.              |
|-----------------------------------------------------------------|------------------|------------------|
| <b>Average number of persons employed (including directors)</b> |                  |                  |
| Finance and administration                                      | 10               | 11               |
| Research and development                                        | 11               | 12               |
| Operations and logistics                                        | 3                | 3                |
|                                                                 | <u>24</u>        | <u>26</u>        |
|                                                                 | £                | £                |
| <b>Staff costs during the year (including directors)</b>        |                  |                  |
| Wages and salaries                                              | 1,461,822        | 1,446,570        |
| Social security costs                                           | 172,547          | 165,721          |
| Other pension costs                                             | 53,502           | 63,820           |
| Share option charges                                            | 97,113           | 111,034          |
|                                                                 | <u>1,784,983</u> | <u>1,787,145</u> |

## CYAN TECHNOLOGY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2010

#### 4. INTEREST PAYABLE AND SIMILAR CHARGES

|                                    | 2010<br>£ | 2009<br>£ |
|------------------------------------|-----------|-----------|
| On late payment of social security | 56        | -         |

#### 5. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

|                                                                       | 2010<br>£ | 2009<br>£ |
|-----------------------------------------------------------------------|-----------|-----------|
| <b>Loss on ordinary activities before taxation is after charging:</b> |           |           |
| Depreciation - owned assets                                           | 20,523    | 34,240    |
| Research and development expenditure                                  | 1,737,703 | 1,532,669 |

The analysis of the auditor's remuneration is as follows  
Fees payable to the company's auditor for the audit of the  
company's annual accounts

|                         |        |        |
|-------------------------|--------|--------|
|                         | 12,500 | 12,500 |
| <b>Total audit fees</b> | 12,500 | 12,500 |

# CYAN TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2010

### 6. TAX ON LOSS ON ORDINARY ACTIVITIES

|                                       | 2010<br>£ | 2009<br>£ |
|---------------------------------------|-----------|-----------|
| <b>Current taxation</b>               |           |           |
| United Kingdom corporation tax credit | (304,537) | (482,851) |

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

|                                                               | 2010<br>£   | 2009<br>£   |
|---------------------------------------------------------------|-------------|-------------|
| Loss on ordinary activities before tax                        | (2,859,099) | (2,643,001) |
| Tax on loss on ordinary activities at standard rate           | (800,548)   | (740,040)   |
| Factors affecting charge for the year                         |             |             |
| Disallowable expenditure                                      | 27,737      | 31,060      |
| Capital allowances in excess of depreciation                  | (4,564)     | (1,269)     |
| Losses in the year not recognised                             | 409,969     | 348,324     |
| Losses surrendered in respect of R&D tax credit               | 367,406     | 348,504     |
| Prior period adjustments                                      | 16,944      | (165,691)   |
| Research and development tax credit receivable - current year | (321,481)   | (303,739)   |
| Total actual amount of current tax credit                     | (304,537)   | (482,851)   |

| Analysis of deferred tax balances            | Provided  |           | Unprovided  |             |
|----------------------------------------------|-----------|-----------|-------------|-------------|
|                                              | 2009<br>£ | 2008<br>£ | 2010<br>£   | 2009<br>£   |
| Capital allowances in excess of depreciation | -         | -         | (18,622)    | (23,876)    |
| STTDs                                        | -         | -         | (14,191)    | (6,558)     |
| Tax losses available                         | -         | -         | (2,804,470) | (2,485,543) |
|                                              | -         | -         | (2,837,283) | (2,515,977) |

A deferred tax asset has not been recognised in respect of the revenue losses as there is insufficient evidence that the asset will be recovered in the foreseeable future. The estimated value of the deferred tax asset not recognised, measured at the standard rate of 28% is £2,837,283 (2009 - £2,515,977). The asset would be realised if the company began to make future taxable income.

# CYAN TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2010

### 7 SHARE BASED PAYMENTS

#### Equity-settled share option scheme

The company has a share option scheme for all employees of the company, whereby options are granted over the shares of the parent company, Cyan Holdings plc. Options are exercisable at a price equal to the average quoted market price of the Cyan Holdings plc's shares on the date of grant. The vesting period is 4 years. 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 company before the options vest.

Details of the share options outstanding during the year are as follows

|                                        | 2010                          |                                               | 2009                          |                                               |
|----------------------------------------|-------------------------------|-----------------------------------------------|-------------------------------|-----------------------------------------------|
|                                        | Number of<br>share<br>options | Weighted<br>average<br>exercise<br>price<br>£ | Number of<br>share<br>options | Weighted<br>average<br>exercise<br>price<br>£ |
| Outstanding at beginning of the period | 8,126,550                     | 0.024                                         | 45,484,800                    | 0.031                                         |
| Granted during the period              | 18,316,838                    | 0.012                                         | 750,000                       | 0.024                                         |
| Forfeited during the period            | (783,750)                     | 0.009                                         | (37,693,000)                  | 0.024                                         |
| Exercised during the period            | -                             | -                                             | (415,250)                     | -                                             |
| Lapsed during the period               | -                             | -                                             | -                             | -                                             |
| Outstanding at the end of the period   | 25,659,638                    | 0.019                                         | 8,126,550                     | 0.024                                         |
| Exercisable at the end of the period   | 3,483,900                     | 0.013                                         | 1,301,000                     | -                                             |

The options outstanding at 31 December 2010 had a weighted average exercise price of 1.90 pence, and a weighted average remaining contractual life of 103 months. In 2010, options were granted on 20 January, 7 July, 5 October and 21 December. The aggregate of the estimated fair values of the options granted on those dates is £104,118. In 2009, options were granted on 24 June as well as an EBT grant on 20 August. The aggregate of the estimated fair values of the options granted on those dates is £13,815.

The inputs into the Black-Scholes option pricing model are as follows

|                                 | 2010    | 2009    |
|---------------------------------|---------|---------|
| Weighted average share price    | 1.09p   | 2.35p   |
| Weighted average exercise price | 1.09p   | 2.35p   |
| Expected volatility             | 101%    | 73%     |
| Expected life                   | 4 years | 4 years |
| Risk-free rate                  | 0.49%   | 2.98%   |
| Expected dividends              | 0%      | 0%      |

Expected volatility was determined by calculating the historical volatility of the parent company's share price. 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 company recognised total expenses of £97,113 and £111,034 related to equity-settled share-based payment transactions in 2010 and 2009 respectively.

# CYAN TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2010

### 8. TANGIBLE FIXED ASSETS

|                                 | Leasehold<br>property<br>improve-<br>ment<br>£ | Office<br>equipment<br>£ | Plant and<br>machinery<br>£ | Fixtures<br>and fittings<br>£ | Total<br>£ |
|---------------------------------|------------------------------------------------|--------------------------|-----------------------------|-------------------------------|------------|
| <b>Cost</b>                     |                                                |                          |                             |                               |            |
| At 1 January 2010               | 46,236                                         | 118,281                  | 21,377                      | 49,518                        | 235,412    |
| Additions                       | -                                              | 8,987                    | 3,936                       | -                             | 12,923     |
| At 31 December 2010             | 46,236                                         | 127,268                  | 25,313                      | 49,518                        | 248,335    |
| <b>Accumulated depreciation</b> |                                                |                          |                             |                               |            |
| At 1 January 2010               | 27,182                                         | 112,979                  | 13,877                      | 47,148                        | 201,186    |
| Charge in year                  | 6,297                                          | 7,527                    | 4,733                       | 1,966                         | 20,523     |
| At 31 December 2010             | 33,479                                         | 120,506                  | 18,610                      | 49,114                        | 221,709    |
| <b>Net book value</b>           |                                                |                          |                             |                               |            |
| At 31 December 2010             | 12,757                                         | 6,762                    | 6,703                       | 404                           | 26,626     |
| At 31 December 2009             | 19,054                                         | 5,302                    | 7,500                       | 2,370                         | 34,226     |

### 9. STOCKS

|                  | 2010<br>£      | 2009<br>£      |
|------------------|----------------|----------------|
| Raw materials    | 708,618        | 689,573        |
| Work in progress | -              | 6,965          |
| Finished goods   | 171,967        | 138,628        |
|                  | <u>880,585</u> | <u>835,166</u> |

There is no material difference between the carrying value of stocks and their replacement cost

### 10. DEBTORS

|                                | 2010<br>£      | 2009<br>£      |
|--------------------------------|----------------|----------------|
| Trade debtors                  | 4,898          | 7,592          |
| Other debtors                  | 16,698         | 2,749          |
| Corporation tax receivable     | 321,481        | 506,272        |
| Prepayments and accrued income | 5,529          | 8,001          |
|                                | <u>348,606</u> | <u>524,614</u> |

All amounts are due within one year

# CYAN TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2010

### 11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

|                                   | 2010<br>£         | 2009<br>£         |
|-----------------------------------|-------------------|-------------------|
| Trade creditors                   | 24,428            | 23,892            |
| Amounts due to group undertakings | 18,921,266        | 16,593,160        |
| Other taxes and social security   | 50,928            | 45,164            |
| Accruals and deferred income      | 143,362           | 97,060            |
|                                   | <u>19,139,984</u> | <u>16,759,276</u> |

### 12. CALLED UP SHARE CAPITAL

|                                                                           | 2010<br>£    | 2009<br>£    |
|---------------------------------------------------------------------------|--------------|--------------|
| Called up, allotted and fully paid<br>1,000 ordinary shares of £1.00 each | <u>1,000</u> | <u>1,000</u> |

### 13. STATEMENT OF MOVEMENTS ON RESERVES

|                                           | Capital<br>contribution<br>reserve<br>£ | Profit and<br>loss<br>account<br>£ | Total<br>£          |
|-------------------------------------------|-----------------------------------------|------------------------------------|---------------------|
| At 1 January 2010                         | 379,886                                 | (15,671,321)                       | (15,291,435)        |
| Loss for the year                         | -                                       | (2,554,562)                        | (2,554,562)         |
| Credit to equity for share based payments | 97,113                                  | -                                  | 97,113              |
| At 31 December 2010                       | <u>476,999</u>                          | <u>(18,225,883)</u>                | <u>(17,748,884)</u> |

The capital contribution arises as result of the grant of share options by the parent company, Cyan Holdings plc, to employees of Cyan Technology Limited, for which no intercompany charge is made

### 14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

|                                           | 2010<br>£           | 2009<br>£           |
|-------------------------------------------|---------------------|---------------------|
| Loss for the financial year               | (2,554,562)         | (2,160,150)         |
| Credit to equity for share based payments | <u>97,113</u>       | <u>111,034</u>      |
| Net increase in shareholders' deficit     | (2,457,449)         | (2,049,116)         |
| Opening shareholders' deficit             | <u>(15,290,435)</u> | <u>(13,241,319)</u> |
| Closing shareholders' deficit             | <u>(17,747,884)</u> | <u>(15,290,435)</u> |

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## **CYAN TECHNOLOGY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **Year ended 31 December 2010**

#### **15. ULTIMATE PARENT COMPANY**

The immediate and ultimate parent company and controlling party is Cyan Holdings plc a company registered in England and Wales. The consolidated accounts of Cyan Holdings plc are available to the public and may be obtained from Buckingham Business Park, Swavesey, Cambridge, CB24 4UQ.