

Annual Report and Financial Statements 2009

cyan holdings plc

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About Cyan

Based in Cambridge in the UK, Cyan Holdings plc is a fabless semiconductor company specializing in the development of wireless monitoring and control products for managing lighting systems and for implementing automated meter reading

Cyan supplies complete systems as production ready wireless enabled modules suitable for either new installation or retrofitting. Cyan's products operate in all international frequency bands allocated for these functions and provide user access through the Internet or mobile telephone networks. Cyan wireless products support international networking standards such as Zigbee and Wireless M-Bus. Cyan also offers a proprietary mesh networking protocol CyNet that has been optimised for use in building, street and tunnel lighting as well as automated meter reading and demand control.

All Cyan's products use Cyan microcontroller chips (MCU's), that have been designed by the company and incorporate features that reduce both system cost and power consumption by minimising the requirement for additional components.

Cyan's strategy is to supply manufacturers with families of low cost products that provide all the hardware and software required to upgrade their existing products, particularly utility meters and lighting control systems, to offer wireless control. All Cyan systems 'work straight out of the box' and are easy to use, modify and deploy.

Cyan is delighted to work with one of the largest electronics distributors in the world,

Future Electronics who have 169 offices in 44 countries and has partnered with us to distribute Cyan products. Cyan's products deliver ongoing cost savings to OEM's, that can in turn recover the cost of purchase and installation in a period that is short compared to the product's lifetime.

Cyan lighting control systems:

Reduce power consumption through dimming, either event (motion) or time of day (eg street lighting)

Reduce maintenance costs through real time monitoring of status, (on/off) and temperature (lifetime)

Cyan meter monitoring systems enable remote meter reading and control:

Reducing meter reading costs

Enabling user profiling to detect meter tampering

Supporting remote on/off control to enforce payment or proactively manage demand

Increase generation efficiency by use of time of day tariffs to modify consumer behavior

Cyan also markets its MCUs as components for use in a variety of electronic products and its module for general use in industrial wireless control markets.

The Company was founded in 2002 and listed on AIM in 2005. Cyan Holdings plc operates through the brand 'Cyan'.

Website <http://www.cyantechnology.com>

Chairman's Statement

Dr John Read

During 2009, Cyan continued to make significant progress in the marketing of its wireless utility metering products. Our primary goal is the commercialisation of our market leading products and throughout the period customer engagements increased significantly across our three key target areas, namely the automated/smart metering market, the global street lamp control market and supplier of gateways (access points) to a wide range of industrial wireless networks.

Cyan's strategic aim is to become a major supplier to each of these important global markets and progress was made during the year which included the sale of tens of thousands of microcontrollers, thousands of wireless gas meter controllers and hundreds of street light controllers for prototypes, pre-production and field trials. Cyan is engaged with a range of customers in China, India, Africa, Europe and the USA that have completed or undertaken trials during the year. Cyan also has contract manufacturing partners ready to support any rapid increase in orders of our solutions.

Cyan has successfully secured and maintained key partnerships, most recently with Future Electronics Inc, a top three worldwide electronic component distributor with divisions focussed on metering and lighting products. Future Electronics provides a global distribution network for all Cyan products.

The agreement announced in July with Future Electronics recognises the synergy between Cyan's products and the global markets in which Future is well established. Future supplies a substantial portion of the global in-building LED lighting market through its Future Lighting Solutions ('FLS') division. As a result of the relationship with Future, Cyan is currently working on wireless lighting control for incorporation into a new product expected to go into production during 2010, to be offered to current and prospective FLS customers.

As we have progressed through the year Cyan has continued to meet the demands of potential key customers in cost and performance and has received orders for field trials across a range of applications. In September 2009 Cyan demonstrated the first 470MHz version of its wireless meter, the required frequency specified for all future meters in China. Cyan's product is now able to address electricity metering opportunities in China in addition to gas and water meter opportunities across all Chinese provinces.

While undergoing trials with key customers, Cyan's technology has developed to incorporate features significantly improving the performance of Cyan's wireless metering solutions. We continue to work with potential customers, who incorporate our products into their own,

to present new features to their target markets. The technical performance of Cyan's products continues to drive demand for field trials in different countries and across a number of potentially large scale applications.

For the year ended 31 December 2009 both operating costs and R&D costs were significantly reduced, resulting in an operating loss of £3,133,135 (2008 £4,557,917). Loss for the year was also reduced to £2,652,260 (2008 £3,999,326). Cash at year end sat at £1,968,072 (2008 £1,356,886).

The Company successfully completed two equity placings to new and existing investors during the period, raising a total of £3.0 million of new money (net of expenses) to fund working capital requirements to support customer trial orders and partnerships.

Dr John Read
Chairman
26 March 2010

Chief Executive's Review

Kenn Lamb

Smart Meters, Smart Grid, and Automated Meter Reading. These are all terms which are seen more and more frequently in the press. Each offers different benefits, but all require remote access to monitor and control utility meters.

The green agenda is the driving force behind these meter initiatives, each intended to be energy saving, primarily delivered by modifying consumer behaviour. The lighting market gets less press coverage, energy saving light bulbs are promoted for domestic use, but it is street lighting and commercial buildings where substantial energy savings can be made. To realise such savings individual lights must be monitored and controlled. It's analogous to the metering requirement and again, wireless communication is the dominant choice to provide that control.

Cyan provides that wireless communication and is 'The Gateway to Intelligent Connectivity'.

Cyan has developed a comprehensive range of wireless control and monitoring products for these markets. The requirement sounds easy, but the successful implementation has required many years of development, as individuals, we carry mobile phones, and as a result are familiar with point-to-point wireless communication. Every time we connect wirelessly to the Internet we use point to multipoint. What is relatively new and a future requirement for these markets is a mesh connection, where communication is relayed between individual lights or meters from one or multiple access points. Communication percolates through the mesh, each meter or light is connected to more than one other meter or light, thus offering multiple communication routes and automatically

building in communication redundancy. Range and, more importantly, penetration through reinforced concrete floors in tower blocks, is increased by taking multiple hops through only a few floors at a time while using no more than the transmit power achievable with batteries or limited by regulation.

Cyan has four specialised capabilities that we believe are not available from any other single supplier.

Cyan's microcontrollers minimise the components required for any meter or lighting product by utilising our own 16bit MCU device. This has processing power sufficient to handle both the wireless communication as well as the metering or lighting control functions. The alternative is to use two MCUs adding significantly to the cost.

Cyan's mesh networking protocol CyNet™ has been developed specifically for metering and lighting applications. This requires detailed knowledge and practical experience from multiple field trials to understand how to make systems that are

- Self Forming, to simplify deployment
- Self Healing, to make them robust and automatically support additional meters or lights
- Low power, to enable battery operation for gas and water meters
- Low network overhead, to increase the maximum size of a single network

Cyan's wireless products operate in all global sub 1GHz ISM bands. These are the frequency bands allocated for metering and lighting. Cyan has a single interchangeable product family that allows our customers to deploy their products anywhere.

in the world. The sub 1GHz frequencies are more difficult to use for wireless mesh networking, the data throughput is lower so tuning the protocol to the application is a critical requirement. These bands have significant advantages in range and penetration making them a preferred choice for these applications.

Cyan's products provide a complete solution. Wireless nodes for retrofitting as well as complete meter and lighting control electronics supplied as production ready modules. Access points using USB, Ethernet and GPRS allow connection wirelessly, from a PC, over the Internet or even via a mobile phone network. Concentrators actually process meter readings and present these via a web server. All these functions are managed by Cyan's 16bit MCU's offering significant cost savings compared to 32 bit alternatives. Significantly, through CyanIDE, a state of the art graphical development tool that we issue free of charge, all of these products are also user programmable.

This range of capabilities enables Cyan to offer a compelling solution for the metering and lighting markets. In recent months we have taken this one stage further and developed, for specific customers, products that provide wireless mesh capability plus all the electronics required for a meter including the display. These meter products are battery operated and demonstrate the low system cost and low power consumption that can be realised by using a single Cyan MCU.

Cyan has also developed, again for specific customers, lighting control products that combine wireless mesh capability with monitoring and control of the light intensity, again from a single Cyan MCU. Cyan is currently working with Future Lighting Solutions (a leading supplier to the global

LED lighting market) to add wireless control to their lighting platform. All of these products are supported with software that customises Cyan's Gateway and Concentrator products, to provide a near complete wireless mesh solution ready to incorporate into the customer's product. On previous pages there are photographs of some of these customer's products along with other products that include Cyan MCU's, often based on a system design also supplied by Cyan. In 2009 the Cyan team has continued to work hard to enhance its understanding of the requirements of our target markets, reinforcing our technology leadership.

Looking Forward

Cyan's products have been designed into a range of established customers' meters and lighting systems. These products have been through or are currently undergoing field trials. Cyan expects that in 2010 a growing number of these customers will win tenders and commence production deployment. In the current economic climate it remains the case that not even our customers can predict the timing of such deployment with any certainty.

The Group's business plan for 2010 and beyond includes significant assumptions around the timing and value of future sales and the level of gross margins. It also identifies the need for additional financing within the next six months. We draw your attention to the information in note 3 about the basis on which the Board has concluded that the Group is a going concern and the risks and uncertainties within the business plan. Those uncertainties include the level and timing of future sales, the level of gross margin achieved and the availability or otherwise of additional funding.

Once again I wish to acknowledge and thank Cyan employees for their enthusiasm and dedication, and acknowledge the continued support of the Company's shareholders for whom 2010 should finally reveal the potential of Cyan

A handwritten signature in black ink, appearing to read 'Kenn Lamb', with a horizontal line underneath the name.

Kenn Lamb
Chief Executive Officer
26 March 2010

Directors' Report

The Directors present their annual report on the affairs of the Group together with the audited financial statements and auditors' report for the year ended 31 December 2009

Principal activities and review of the business

The principal activity of the Group during the year was that of research and development of microcontroller chips and general purpose digital semiconductors and developing markets in which to sell them. Key financial performance indicators are presented in the Chairman's Statement. The average number of employees in the Group during the year was 30 (2008: 53).

Going Concern

The directors have prepared a business plan and cash flow forecast for the period to 30 June 2011. 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 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 timescale 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.

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 Group was unable to continue as a going concern. In the event the Group ceased to be a going concern, the adjustments would include writing down the carrying value of assets to their recoverable amount and providing for any further liabilities that might arise.

Dividends

The Directors do not recommend the payment of a dividend (2008: £nil). The Group has no plans to adopt a dividend policy in the foreseeable future and all funds generated by the Group will be invested in the further development of the business, as is normal for a company operating in this industry sector and at this stage of its development.

Capital Structure

Details of the authorised and issued share capital, together with details of the movements in the company's issued share capital during the year are shown in note 23. The company has one class of ordinary shares of 0.2 pence each, which carry no right to fixed income and represents 100% of the issued share capital of the company. Each share carries the right to one vote at general meetings of the company. The Group's capital structure consists only of issued share capital, which it manages to maximise the return to shareholders.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of the employee share schemes are set out in note 32.

No person has any special rights of control over the company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the company is governed by its Articles of Association, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Corporate Governance Statement on page 9.

Under its Articles of Association and pursuant to authorities granted under the Companies Act, the company has authority to issue ordinary shares of 0.2 pence each up to a nominal value of £1,600,000.

Directors and their interests

The Directors who served the company during the year were as follows

Executive Directors

Kenn Lamb

Andrew Lee (resigned 16 February 2009)

Non-Executive Directors

Dr John Read (Chairman)

David Gutteridge

Mr Gutteridge and Dr John Read are the members of the audit committee, nominations committee and remuneration committee. Mr Gutteridge retires at the next Annual General Meeting and does not intend to offer himself for re-election.

The interests of the Directors in the shares of the company are shown in the remuneration committee report, which begins on page 10.

Research Design and Development

The Group is committed to the research, design and development of a range of microcontroller chips and general purpose semiconductors. The costs relating to this which have been written off in the year amounted to £1,532,669 (2008: £1,953,937).

Significant Holdings

In addition to the Directors' interests shown in the remuneration committee report on page 10, the company had been notified of the following voting rights as a shareholder in the company at 26 February 2010:

	Percentage of voting rights and issued share capital	Number of ordinary shares	Nature of holding
P Lobbenburg	11.71%	76,700,000	Combined
Tosca Asset Management LLP	8.96%	58,650,000	Direct
Helium Special Situations Fund	8.01%	52,450,000	Direct
Kenn Lamb	5.80%	37,976,000	Combined
Standard Life Investments	4.81%	31,500,000	Direct
Rensburg Sheppards Investment Management Ltd	4.10%	26,827,000	Direct
Janice Sugarman	3.09%	20,250,000	Combined
INVESTCO Perpetual AIM VCT Trust	3.05%	20,000,000	Direct

Fixed Assets

In the opinion of the directors there is no material difference between the market value of fixed assets and the amounts at which they are stated in note 16 to the accounts.

Supplier payment policy

It is the policy of the Group to settle supplier invoices in line with the terms of business negotiated with them.

Charitable and political donations

There were no charitable or political donations made during the year or previous year.

Auditors

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he/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 company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

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

A handwritten signature in black ink, appearing to read 'Kenn Lamb', with a long horizontal line extending from the end of the signature.

Kenn Lamb
Chief Executive Officer
26 March 2010

Board of Directors

Kenn Lamb - Chief Executive Officer (aged 51)

Kenn was awarded a 1st Class Honours degree in Electrical Engineering from Imperial College London and relocated to Silicon Valley in the early 80's working for Advanced Micro Devices (AMD) on the Am29500 family of products. Returning to the UK to head and grow the CMOS digital product group at Plessey Semiconductor's new fabrication facility, his team developed semiconductor products that realised over \$100M in sales.

In the early 90's Kenn established the European operation for Comdisco Systems Inc, an EDA software tool business with products that became widely used in the development of the European GSM network. This company was subsequently acquired by Cadence Design Systems Inc, one of the three leading EDA tool vendors.

Recruited from Cadence to Actel, a Fabless Semiconductor Company where growth had stalled, Kenn rebuilt the European team, personally running UK, German and French subsidiaries where he quadrupled sales revenues in two years.

In 2001 Kenn was the CEO founder of Elixent, a semiconductor IP company and completed a successful sale of this business to Matsushita (Japan) in 2006.

Prior to Elixent Kenn was senior vice president sales at ARC International plc where he managed the restructuring of its international sales team, turning the business from a decline in sales, through two years of quarter on quarter growth, to a successful London Stock Exchange flotation in September 2000, which achieved a market capitalisation of £500m. Kenn joined the board of Cyan in April 2007 to manage the implementation of a new product and go-to-market strategy and a restructuring of the business.

Dr John Read - Non-Executive Chairman (aged 68)

Dr John Read is an experienced manager with a record of developing profitable high-tech semiconductor businesses. In the late 1990s he was a director of GEC Plessey Semiconductors and joint president of GPS Inc in California. Since then he has been involved with a number of fabless start-ups: he was a director of Alphamosaic Limited (which was sold to Broadcom Europe Limited), and served on the board of Anadigm Limited from 2000 to 2003. He is an active mentor for the Cambridge Entrepreneurship Centre and for SETSquared in Surrey. Other positions held include technical director of Texas Instruments in the UK, technical director at STC Telecommunications, and director of engineering at Honeywell's Solid State Electronics in Minnesota. Dr Read is a director of the semiconductor company Si-Light Technologies Limited and a director of Icen Advisory Limited. He became a Director of Cyan in November 2005 and was appointed Chairman in October 2007.

David Gutteridge - Non-Executive Director (aged 58)

David has over fifteen years' experience in the technology and IT sectors. He has held the position of director of a number of public and private companies where he has made a significant contribution to their business and strategic development. He has extensive experience in listings, management buy-outs and buy-ins, venture capital start ups as well as acquisitions and disposals.

David's last executive role was as Chief Operating Officer and Finance Director of UK based banking software provider Financial Objects plc where he led the company's flotation on the Main Market of the London Stock Exchange as well as the organic and acquisitive growth of the business.

David is currently a senior independent Non-Executive Director of Sanderson plc, a £30 million revenue software solutions company and the Chairman of Tinglobal Limited, a private equity backed IT solutions vendor. He is a CIMA qualified accountant. He became a Director of Cyan in February 2008.

Corporate Governance Statement

Whilst companies whose shares are listed on AIM are not formally required to comply with the Combined Code, the Board supports the Code and applies it in so far as is practicable and appropriate for a public company of its size. The Board is committed to ensuring that high standards of corporate governance are maintained.

There is a clear division of responsibility between the Chairman and the Chief Executive. At 31 December 2009 the Board comprised three Directors, two of whom were independent Non-Executive Directors. The Non-Executive Directors do not have any day to day involvement in the running of the business. The Board is responsible for overall strategy, the policy and decision making framework in which this strategy is implemented, approval of budgets, monitoring performance, and risk management. The Board meets at regular scheduled intervals and follows a formal agenda, it also meets as and when required.

The Directors may take independent professional advice at the company's expense.

Board Committees

The company has an Audit Committee and a Remuneration Committee both consisting of the Non-Executive Directors.

Relationships with Shareholders

The Board understands the need for clear communications with its shareholders. In addition to presentations after publication of results and the Annual General Meeting, meetings are held with fund managers, analysts, and institutional investors. Information is posted on the company's web site, www.cyantechnology.com, which contains a comprehensive Investor Relations section.

Remuneration Committee Report

Remuneration committee

The company has established a Remuneration Committee. The members of the committee during 2009 were Dr John Read and David Gutteridge. Both directors are independent non-executive directors and the committee was chaired by Dr John Read.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the board. No director plays a part in any discussion about his or her own remuneration.

Remuneration policy for the executive directors

Executive remuneration packages are prudently designed to attract, motivate and retain directors of the high calibre needed to maintain the group's market position to reward them for enhancing value to shareholders. The performance measurement of the executive directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Committee.

There are five main elements of the remuneration package for the executive directors and senior management:

- Basic annual salary,
- Benefits-in-kind,
- Annual bonus payments,
- Share option incentives, and
- Pension arrangements.

Executive directors are entitled to accept appointments outside the company providing that the Chairman's permission is sought and fees in excess of £20,000 from all such appointments are accounted for to the company.

Basic Salary

An executive director's basic salary is reviewed by the Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the group as a whole and relies on objective research, which gives up-to-date information on a comparator group of companies. Executive directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

Benefits-in-kind

The executive directors receive certain benefits-in-kind, principally private medical insurance.

Annual bonus payments

The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. In setting appropriate bonus parameters the Committee refers to the objective research on a comparator group of companies as noted above. The Committee believes that any incentive compensation awarded should be tied to the interest of the company's shareholders and that the principal measure of those interests is total shareholder return. Account is also taken of the relative success of the different parts of the business for which the executive directors are responsible and the extent to which the strategic objectives set by the board are being met. No incentive payments were made in 2009. This reflects the success of the company in raising the funds essential to being able to pursue its business objectives. In addition the Committee has the power to grant bonuses at its discretion.

Remuneration Committee Report

Share options

During the year ended 31 December 2007 following notification in the circular to the shareholders for the Extraordinary General Meeting on 24 August 2007, the company commenced work on setting up an Employee Benefit Trust. During the year ended 31 December 2009, there were no issues to Directors under this scheme (2008 31,000,000 shares)

The performance criterion that must be met is based on the fact that no director will gain via the Employee Benefit Trust until the share price (1.95 pence on 31 December 2009) reaches 2.5 pence

Pension arrangements

The executive directors are members of the company pension scheme. This is a defined contribution scheme whereby the company contributes at a rate of 5% of the executives' gross salary.

Directors' contracts

It is the company's policy that the executive directors should have contracts with an indefinite term providing for a maximum of one year's notice. It may be necessary on occasion to offer longer notice periods but this has not been necessary for any director on the current board. All executive directors have contracts that are subject to one year's notice by either party.

Dr John Read, being a non-executive director, does not have a service contract. The details of the directors' contracts are summarised in the table below.

Name of Director	Date of contract
Kenn Lamb	27 March 2007
Dr John Read	30 November 2005
David Gutteridge	5 February 2008

Non-executive directors

All non-executive directors have specific terms of engagement and their remuneration is determined by the board within the limits set by the Articles of Association and based on independent surveys of fees paid to non-executive directors of similar companies. The basic fee paid to each non-executive director in the year was:

Dr John Read	£50,000
David Gutteridge	£30,000

Non-executive directors are not eligible to join the company's pension scheme.

Directors' emoluments (audited)

Name of director	Fees/ Basic salary £	Benefits in kind £	Compensation for loss of office £	Annual bonus £	2009 total £	2008 total £
<i>Executive</i>						
Kenn Lamb	149,505	1,215	–	60,000	210,720	220,280
Andrew Lee	15,281	–	11,000	–	26,281	114,100
<i>Non Executive</i>						
Dr John Read	50,000	–	–	–	50,000	50,083
Mr David Gutteridge	30,000	–	–	–	30,000	27,609

Fees totalling £30,000 were paid to Pentlands Services in respect of directors' services of David Gutteridge during 2009 (2008 £2,607).

Directors' share options (audited)

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the directors. There were no options exercised by directors during the year (2008 nil).

Options granted under the EMI Share Option Scheme and unapproved share option schemes above, are not subject to performance criteria.

Remuneration Committee Report

During 2008 an Employee Benefit Trust was set up (EBT). On 20 August 2009 1,250,000 shares were issued to a senior manager of the Company under this scheme. No shares were issued to Directors during the year under this scheme. At 31 December 2009, shares held by Directors under this scheme were as follows -

	2009 £	2008 £
Kenn Lamb	30,000,000	30,000,000
John Read	1,000,000	1,000,000
	31,000,000	31,000,000

The market price of the ordinary shares at 31 December 2009 was £0.0195 and the range during the year was £0.0062 to £0.0195.

The executive directors are members of a money purchase pension scheme. Contributions paid by the company in respect of such directors were as follows:

Name of director	2009 £	2008 £
Kenn Lamb	1,875	7,500

Approval

This report was approved by the board of directors on 26 March 2010 and signed on its behalf by

Dr John Read
26 March 2010

Directors' Responsibilities Statement

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

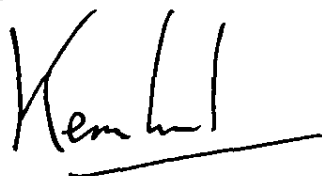
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the directors must not approve the accounts 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, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern

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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



Chief Executive
Kenn Lamb
26 March 2010

Independent Auditors' Report to the Members of Cyan Holdings plc

We have audited the financial statements of Cyan Holdings plc for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

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 auditors' 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 auditors

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 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 (APB'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 2009 of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern

Without qualifying our opinion, we draw attention to the disclosures made in note 3 of the financial statements concerning the company's ability to continue as a going concern. The group incurred a net loss of £2,652,260 during the year ended 31 December 2009 and, as of that date, the group's cash balance was £1,968,072. In making their assessment of whether the application of the going concern assumption is appropriate, the directors have referred to the company'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 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. 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 Group ceased to be a going concern, the adjustments would include writing down the carrying value of assets 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

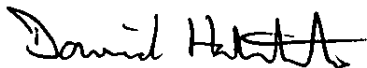
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

Under the Companies Act 2006 we are required 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 Auditors
Cambridge, United Kingdom
26 March 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Note	2009 £	2008 £
Continuing operations			
Revenue	5	95,569	145,627
Cost of sales		(62,897)	(86,321)
Gross profit		32,672	59,306
Operating costs		(1,633,138)	(2,485,486)
Research and development costs		(1,532,669)	(1,953,937)
Restructuring costs	7	–	(177,800)
Operating loss		(3,133,135)	(4,557,917)
Investment revenue	5,11	1,639	92,885
Finance costs	12	(11)	(1)
Loss before tax		(3,131,507)	(4,465,033)
Tax	13	479,247	465,707
Loss for the year	8	(2,652,260)	(3,999,326)
Loss per share (pence)			
Basic	14	(0.5)	(1.7)
Diluted	14	(0.5)	(1.7)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

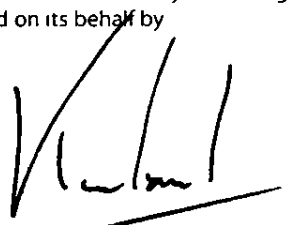
		2009 £	2008 £
Exchange differences on translation of foreign operations	28	145,834	(373,948)
Loss for the year		(2,652,260)	(3,999,326)
Total comprehensive income for the year		(2,506,426)	(4,373,274)

Consolidated Balance Sheet

At 31 December 2009

	Notes	2009 £	2008 £
Non-current assets			
Intangible assets	15	–	–
Property, plant and equipment	16	39,729	99,769
Current assets			
Inventories	18	893,087	847,351
Trade and other receivables	19	569,601	617,636
Cash and cash equivalents	19	1,968,072	1,356,886
		3,430,760	2,821,873
Total assets		3,470,488	2,921,642
Current liabilities			
Trade and other payables	22	229,332	274,695
Total liabilities		229,332	274,695
Net assets		3,241,157	2,646,947
Equity			
Share capital	23	1,309,565	954,259
Share premium account	24	19,026,290	16,391,994
Own shares held	25	(690,191)	(690,191)
Share option reserve	26	379,886	268,852
Translation Reserve	28	(228,114)	(373,948)
Retained earnings	27	(16,556,279)	(13,904,019)
Total equity being equity attributable to equity holders of the parent		3,241,157	2,646,947

The financial statements of Cyan Holdings plc were approved by the board of directors and authorised for issue on 26 March 2010. They were signed on its behalf by



Kenn Lamb
Director

26/3/10

Consolidated Statement of Changes in Equity

	Share Capital	Share Premium	Own shares held	Share Option Reserve	Translation Reserve	Retained Losses	Total Equity
Balance at 31 December 2007	279,252	13,600,291	–	209,398	–	(9,904,693)	4,184,248
Loss for the year	–	–	–	–	–	(3,999,326)	(3,999,326)
Other comprehensive income for the year	–	–	–	–	(373,948)	–	(373,948)
Total comprehensive income for the year	–	–	–	–	(373,948)	(3,999,326)	(4,373,274)
Issue of share capital	675,007	2,791,703	(690,191)	–	–	–	2,776,519
Credit to equity for share options	–	–	–	59,454	–	–	59,454
Balance at 31 December 2008	954,259	16,391,994	(690,191)	268,852	(373,948)	(13,904,019)	2,646,947
Loss for the year	–	–	–	–	–	(2,652,260)	(2,652,260)
Other comprehensive income for the year	–	–	–	–	145,834	–	145,834
Total comprehensive income for the year	–	–	–	–	145,834	(2,652,260)	(2,506,426)
Issue of share capital	355,306	2,634,296	–	–	–	–	2,989,602
Credit to equity for share options	–	–	–	111,034	–	–	111,034
Balance at 31 December 2009	1,309,565	19,026,290	(690,191)	379,886	(228,114)	(16,556,280)	3,241,157

Company Balance Sheet

At 31 December 2009

	Notes	2009 £	2008 £
Non-current assets			
Intangible assets	15	–	–
Investments in subsidiaries	17	381,886	270,852
		381,886	270,852
Current assets			
Loans to other Group entities	33	–	–
Trade and other receivables	19	724,366	721,160
Cash and cash equivalents	19	1,874,394	1,262,762
		2,598,760	1,983,922
Total assets		2,980,646	2,254,774
Current liabilities			
Trade and other payables	22	41,500	53,733
Loans from other Group entities		2,000	2,000
Total liabilities		43,500	55,733
Net assets		2,937,146	2,199,041
Equity			
Share capital	23	1,309,565	954,259
Share premium account	24	19,026,290	16,391,994
Share option reserve	26	379,886	268,852
Retained earnings	27	(17,778,595)	(15,416,064)
Total equity		2,937,146	2,199,041

The financial statements Cyan Holdings plc (registered number 04554942) were approved by the board of directors and authorised for issue on 26 March 2010. They were signed on its behalf by

Kenn Lamb
Director


 26/3/10

Company Statement of Changes in Equity

	Share Capital	Share Premium	Share Option Reserve	Retained Losses	Total Equity
Balance at 31 December 2007	279,252	13,600,291	209,398	354,763	14,443,704
Loss for the year	-	-	-	(15,770,827)	(15,770,827)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(15,770,827)	(15,770,827)
Issue of share capital	675,007	2,791,703	-	-	3,466,710
Credit to equity for share options	-	-	59,454	-	59,454
Balance at 31 December 2008	954,259	16,391,994	268,852	(15,416,064)	2,199,041
Loss for the year	-	-	-	(2,362,531)	(2,362,531)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(2,362,531)	(2,362,531)
Issue of share capital	355,306	2,634,296	-	-	2,989,602
Credit to equity for share options	-	-	111,034	-	111,034
Balance at 31 December 2009	1,309,565	19,026,290	379,886	(17,778,595)	2,937,146

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Notes	2009 £	2008 £
Net cash from operating activities	29	(2,400,080)	(5,609,327)
Investing activities			
Interest received		1,639	92,885
Purchases of property, plant and equipment		(10,927)	(30,008)
Net cash used by/from investing activities		(9,288)	62,877
Financing activities			
Interest paid		(11)	(1)
Net proceeds on issue of shares		2,989,602	2,776,519
Net cash from financing activities		2,989,591	2,776,518
Net increase/(decrease) in cash and cash equivalents		580,223	(2,769,932)
Cash and cash equivalents at beginning of year		1,356,886	4,079,534
Effect of foreign exchange rate changes		30,963	47,284
Cash and cash equivalents at end of year		1,968,072	1,356,886

Company Cash Flow Statement

For the year ended 31 December 2009

	Notes	2009 £	2008 £
Loss for the year		(2,362,531)	(15,770,828)
Adjustment for amortisation of intangible assets		–	28,793
Operating cash flows before movement in working capital		(2,362,531)	(15,742,035)
(Increase)/decrease in receivables		(3,206)	9,468,559
(Decrease)/increase in payables		(12,233)	23,157
Net cash used by operating activities		(2,377,970)	(6,250,319)
Financing activities			
Net proceeds on issue of shares		2,989,602	3,466,710
Net cash from financing activities		2,989,602	3,466,710
Net increase/(decrease) in cash and cash equivalents		611,632	(2,783,609)
Cash and cash equivalents at beginning of year		1,262,762	4,046,371
Cash and cash equivalents at end of year		1,874,394	1,262,762

Notes to the Financial Statements

For the year ended 31 December 2009

1. GENERAL INFORMATION

Cyan Holdings plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is Cyan Holdings plc, Buckingham Business Park, Swavesey CB24 4UQ. The nature of the group's operations and its principal activities are set out in the Directors' Report on page 5.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates. Foreign operations are included in accordance with the policies set out in note 3.

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year the following new and revised standards have been adopted. IAS 1 Presentation of Financial Statements has introduced a number of changes in the format and content of the financial statements. IFRS 8 Operating Segments is a disclosure standard that has not led to any redesignation of the Group's reportable segments. Amendments to IFRS 7 Financial Instruments have expanded the disclosure required in respect of the fair value measurements and liquidity risk. IAS 23 Borrowing Costs has had no impact on these financial statements.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

Amendment to IFRS 1 (Jan 2010) Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters

IFRS 9 Financial Instruments

IAS 24 (revised Nov 2009) Related Party Disclosures

Amendment to IAS 32 (Oct 2009) Classification of Rights Issues

Amendments to IFRS 1 (Jul 2009) Additional Exemptions for First-time Adopters

Amendments to IFRS 2 (Jun 2009) Group Cash-settled Share-based Payment Transactions

Improvements to IFRSs 2009 (Apr 2009) Improvements to IFRSs 2009

Amendments to IFRIC 9 and IAS 39 (Mar 2009) Embedded Derivatives

IFRS 1 (revised Nov 2008) First-time Adoption of International Financial Reporting Standards

IFRS 3 (revised Jan 2008) Business Combinations

Amendments to IAS 27 (Jan 2008) Consolidated and Separate Financial Statements

Amendments to IFRIC 14 (Nov 2009) Prepayments of a Minimum Funding Requirement

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 18 Transfers of Assets from Customers

IFRIC 17 Distributions of Non-cash Assets to Owners

The directors anticipate that the adoption of those Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

In the current year the following new and revised standards have been adopted. IAS 1 (revised) Presentation of Financial Statements has introduced a number of changes in the format and content of the financial statements. IFRS 8 Operating Segments is a disclosure standard that has not led to any redesignation of the Group's reportable segments. Amendments to IFRS 7 Financial Instruments have expanded the disclosure required in respect of the fair value measurements and liquidity risk. IAS 23 Borrowing Costs has had no impact on these financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Group

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

Going concern

The directors have prepared a business plan and cash flow forecast for the period to 30 June 2011. The forecast contains certain assumptions about the level of future sales and the level of gross margins and also identified the need within the next six months for additional finance to fund working capital. These assumptions are the directors' best estimate of the future development of the business.

Notes to the Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 significant risk that the required level of funding will not be received in the necessary timescale 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.

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 Group was unable to continue as a going concern. In the event the Group ceased to be a going concern, the adjustments would include writing down the carrying value of assets to their recoverable amount and providing for any further liabilities that might arise.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration 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.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group currently only holds operating leases. Rentals payable under the operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Foreign currencies

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the group's foreign currency translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Notes to the Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating loss

Operating loss is stated after charging restructuring and non-recurring costs but before investment income and finance costs

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. These were the only payments made by the Group in the year under review.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

Fixtures and equipment	20% - 50%
------------------------	-----------

There are no assets held under finance leases.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Notes to the Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred

In the event that an internally generated intangible asset arises from the Group's development activities then it will be recognised only if all of the following conditions are met

- an asset is created that can be identified (such as software and new processes),
- It is probable that the asset created will generate future economic benefits, and
- the development cost of the asset can be measured reliably

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The fair value of the Group's financial instruments are measured using inputs other than quoted prices that are directly or indirectly observable.

Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The Group has only two classes of financial assets being cash and cash equivalents and loans and receivables.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. All the group's loans and receivables are short-term receivables and no interest is accounted for on these balances.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 15 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities

All the Group's financial liabilities are classified as 'other financial liabilities'.

Notes to the Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The group issues equity-settled and cash-settled share-based payments to certain employees. 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 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 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.

Company

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out for the Group consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

The loss for the year dealt with in the financial statements of the company was £2,362,531 (2008: £15,770,827). As permitted by section 408 of the Companies Act 2006, no separate income statement is presented in respect of the parent company.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the group's accounting policies

The following are the critical judgements that the directors have made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- Inventories include stocks of raw materials and finished goods that the directors believe will be sold within the period to June 2011 covered by the Group's business plan. The directors have assumed that the carrying value is recoverable as a result of the sales and gross margins forecast in that plan. Stocks of product that are not included within the sales forecasts have been provided against in full.
- The directors have prepared the financial statements on the basis that the Company is a going concern. Further information on this critical judgement is included in note 3 and within the Directors' Report.
- The carrying value of the Company's investment in subsidiaries is dependent upon the Group achieving its business plan.

Notes to the Financial Statements

For the year ended 31 December 2009

5. REVENUE

An analysis of the Group's revenue is as follows

	2009 £	2008 £
Continuing operations		
Sale of goods	95,569	145,627
Investment income	1,639	92,885
Total revenue	97,208	238,512

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group has concluded that it operates only one business segment as defined by IFRS 8. Accordingly no segmental analysis is presented.

During 2009 there were 4 customers whose turnover accounted for more than 10% of the Group's total revenue as follows -

	Turnover £	Percentage of Total %
Customer A	24,291	24.9
Customer B	21,823	22.6
Customer C	14,087	14.5
Customer D	11,823	12.2

7. RESTRUCTURING AND NON-RECURRING COSTS

During 2008 the Group incurred restructuring costs of £177,800.

8. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging/(crediting)

	2009 £	2008 £
Net foreign exchange losses/(gains)	154,506	(384,578)
Research and development costs	1,532,669	1,953,937
Depreciation of property, plant and equipment	62,232	67,100
Amortisation of intangible assets	-	28,793
Inventories recognised as an expense	62,897	82,353
Impairment of inventories	-	141,543
Staff costs (see note 10)	1,888,739	2,644,560
Impairment loss recognised on trade receivables	-	115

9. AUDITORS' REMUNERATION

The analysis of auditors' remuneration is as follows

	2009 £	2008 £
Fees payable to the company's auditors for the audit of the company's annual accounts	15,000	15,000
Fees payable to the company's auditors and their associates for the other services to the Group		
- The audit of the company's subsidiaries pursuant to legislation	10,000	10,000
Total audit fees	25,000	25,000
- Tax services	14,675	7,500
- Other services pursuant to legislation	10,399	38,375
Total non-audit fees	25,074	45,875

Notes to the Financial Statements

For the year ended 31 December 2009

10. EMPLOYEE INFORMATION

The average monthly number of employees (including directors) was

	2009 Number	2008 Number
Sales and administration	15	28
Research and development	12	22
Operations and logistics	3	3
	30	53
	2009 £	2008 £
Their aggregate remuneration comprised		
Wages and salaries	1,650,821	2,195,090
Social security costs	174,098	358,687
Other pension costs	63,820	90,783
	1,888,739	2,644,560

Key management compensation

The Directors are of the opinion that key management personnel during 2009 comprised of the Board of Directors, the Chief Operating Officer, the VP of Sales and Marketing Worldwide and the VP Engineering. These persons had the authority and responsibility for planning, directing and controlling the activities of the Group. Remuneration for 2009 of these personnel is detailed below. During 2008 key management personnel comprised solely the Board of Directors.

	2009 £	2008 £
Wages and salaries	476,176	370,055
Social security costs	49,699	45,482
Other pension costs	13,092	12,500
	538,967	428,037

Specific details of directors' remuneration are included in the Remuneration Committee Report within this Annual Report.

11. INVESTMENT REVENUE

	2009 £	2008 £
Interest revenue		
Bank deposits	1,639	92,885

Investment revenue is all earned on cash and cash equivalents.

12. FINANCE COSTS

	2009 £	2008 £
Interest on bank overdrafts and loans	11	1

Notes to the Financial Statements

For the year ended 31 December 2009

13. TAX

	2009 £	2008 £
Current tax		
UK corporation tax on profits of the period	(479,247)	(447,694)
Deferred tax (note 21)	-	(18,013)
	(479,247)	(465,707)

Corporation tax is calculated at 28 per cent (2008 20.75 per cent) of the estimated assessable profit for the year

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions

The credit for the year can be reconciled to the loss per the income statement as follows

	2009 £	2008 £
Loss before tax	(3,131,507)	(4,465,033)
At standard rate of 28% (2008 20.75%)	(876,822)	(926,494)
Effects of		
Tax effect of non deductible expenses	31,060	7,197
Tax effect of capital allowances in excess of depreciation	(1,269)	-
Net tax effect of research and development	43,563	(63,850)
Tax effect of other unrecognised temporary differences	11,028	5,681
Tax effect of share option treatments	-	-
Tax effect of unrecognised losses	492,305	529,772
Prior year adjustment	(179,112)	(18,013)
Actual current tax credit in the year	(479,247)	(465,707)

14 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data

Earnings

	2009 £	2008 £
Earnings for the purposes of basic earnings per share being net loss attributable to equity holders of the parent	2,652,260	3,999,326

Number of shares

	2009 No	2008 No
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	528,453,250	239,626,314

15. INTANGIBLE ASSETS

No intangible assets are held at valuation in these accounts

	Group £	Software Company £
Cost		
At 1 January 2008, 1 January 2009 and 31 December 2009	143,964	143,964
Amortisation		
At 1 January 2008	115,171	115,171
Charge for the year	28,793	28,793
At 1 January 2009 and 31 December 2009	143,964	143,964
Carrying amount		
At 31 December 2009	-	-
At 31 December 2008	-	-

Notes to the Financial Statements

For the year ended 31 December 2009

16. PROPERTY, PLANT AND EQUIPMENT

No assets are held at valuation in these accounts

Group

	Fixtures and equipment £
Cost	
At 1 January 2008	240,344
Additions	30,008
Exchange differences	52,195
At January 2009	322,547
Additions	10,927
Disposals	(58,505)
Exchange differences	(8,838)
At 31 December 2009	266,131
Accumulated Depreciation	
At 1 January 2008	143,664
Charge for the year	67,100
Exchange differences	12,014
At 1 January 2009	222,778
Charge for the year	62,232
Disposals	(58,505)
Exchange differences	(103)
At 31 December 2009	226,402
Carrying Amount	
At 31 December 2009	39,729
At 31 December 2008	99,769

At 31 December 2009 the group had no contractual commitments outstanding for the acquisition of property, plant and equipment (31 December 2008 £nil)

17. SUBSIDIARIES

A list of the significant investments in subsidiaries, including the name, country of incorporation, proportion of ownership interest is given in note 33. The increase in the investment in subsidiaries during the period is entirely due to capital contributions related to employee share options.

18. INVENTORIES

Group

	2009 £	2008 £
Raw materials	711,546	723,180
Finished goods	181,541	124,171
	893,087	847,351

Notes to the Financial Statements

For the year ended 31 December 2009

19. TRADE AND OTHER RECEIVABLES AND FINANCIAL ASSETS

Both the company and the Group have a single category of financial asset being loans and receivables. The Group's loans and receivables, which include cash and cash equivalents as well as trade receivables total £1,975,665 (2008 £1,441,620). Those of the company include loans and cash and cash equivalents and total £1,874,394 (2008 £11,402,586).

Trade and other receivables

	Group		Company	
	2009	2008	2009	2008
	£	£	£	£
Amount receivable for the sale of goods	7,592	84,734	-	-
Other debtors	507,950	478,310	(70)	4,155
EBT Loan	-	-	690,191	690,191
Prepayments	54,059	54,592	34,245	26,814
	569,601	617,636	724,366	721,160

During the year nothing was written off the value of the carrying amount of trade and other receivables (2008 £115).

The directors consider that the carrying amount of trade and other receivables at 31 December 2009 approximates to their fair value.

Amounts receivable from the Group undertakings are shown in note 32.

Cash and cash equivalents

	Group		Company	
	2009	2008	2009	2008
	£	£	£	£
Cash and cash equivalents	1,968,072	1,356,886	1,874,394	1,262,762

Cash and cash equivalents comprise cash held by the Group and Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

20. FINANCIAL RISK MANAGEMENT

The Group's financial function provides services to the business, monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including currency risk), credit risk and liquidity risk. The Group does not enter into or trade financial instruments, including derivative financial instruments, for any purpose.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates as it undertakes certain transactions denominated in foreign currencies. This is managed through careful control of the Group's foreign currency balances. There has been no change to the Group's exposure to market risks or to the manner in which it measures and manages the risk. The Group and company had no material foreign exchange exposures at 31 December 2009 or 31 December 2008 and consequently no sensitivity analysis is presented.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables; the credit risk on other classes of financial asset is insignificant. The amounts presented in the balance sheet are net 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 and derivative financial instruments is no longer limited after the collapse of many banks in the worldwide economy. It will become increasingly important to only deal with reputable banks and monitor the security of funds invested.

At 31 December 2009 the Group had no significant concentration of credit risk, with exposure being both small in quantum and spread over a large number of counterparties and customers.

Included in the Group's trade receivables balance are debtors with a carrying amount of £3,994 (2008 £50,434) which are past due at reporting date and not impaired. £941 is 0-90 days overdue (2008 £41,414) and £3,053 is over 90 days overdue (2008 £9,020); the remaining balance is not yet due. There was no allowance for doubtful debts at 31 December 2009 (2008 £nil). The bad debt charge for the year was £nil (2008 £115). The company has made a provision against the full amount of the debt owed to it by its subsidiary companies totalling £18,553,900 (2008 £16,304,192). These amounts are not overdue. Since the Group holds no collateral, the maximum exposure to credit risk is the carrying value of trade receivables.

The fair value of the Group's financial instruments are measured using inputs other than quoted prices that are directly or indirectly observable.

Liquidity risk

Liquidity risk is discussed within note 22.

Notes to the Financial Statements

For the year ended 31 December 2009

21. DEFERRED TAX

No deferred tax liabilities and assets have been recognised by the Group in the current or prior reporting period. At the balance sheet date an unrecognised deferred tax asset relating to tax losses and accelerated capital allowances of £1.4m (2008: £1.4m) existed. No deferred tax asset has been recognised due to the unpredictability and uncertainty of future profit streams.

22. OTHER FINANCIAL LIABILITIES

Both the Group and the company have only one category of financial liability being trade payables held at amortised cost. Those of the Group totalled £37,549 (2008: £115,728) and those of the company totalled £11,564 (2008: £36,837).

Trade and other payables

	Group		Company	
	2009	2008	2009	2008
	£	£	£	£
Trade payables and accruals	229,332	274,695	41,500	53,733

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs all of which are payable within a year. The average credit period taken for trade purchases is 18 days (2008: 25 days). The Group has not incurred interest charges for late payment of invoices during the year (2008: £nil). The Group has financial risk management policies in place to ensure that all payables are paid within agreed credit timeframes. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cashflows.

The directors consider that the carrying amount of trade payables approximates to their fair value.

All of the Group's and the Company's trade payables are due within 3 months. The Group's operating lease commitments are shown within note 30.

23. SHARE CAPITAL

	2009 number	2008 number
Authorised		
Ordinary shares of 0.2 pence each	800,000,000	600,000,000
	2009 £	2008 £
Issued and fully paid		
654,782,659 (2008: 477,129,314) ordinary shares of 0.2 pence each	1,309,565	954,259

On 27 May 2009 the company completed a placing as a result of which 80,000,000 ordinary shares of 0.2 pence each were issued at a price of 1.5 pence per share to raise £1,141,154 after expenses. In addition, on 30 October 2009, the company completed a placing as a result of which 95,238,095 shares were issued at a price of 2.1 pence per share to raise £1,842,495 after expenses. The funds from both placings were raised to develop and execute on the group's new strategy. 2,415,250 shares (2008: nil) were issued as a result of the exercise of share options.

On 20 August 2009, 1 senior staff member of the company was awarded interests in 1,250,000 shares under the Cyan Joint Ownership Scheme.

The company has one class of ordinary shares which carry no right to fixed income.

In August 2008, 25,000,000 warrants were issued to Cenkos, the company's broker, the exercise price of which is £0.01 per share.

Unapproved share options

On 1 December 2005, the company granted 2,400,000 share options under this scheme, the exercise price of which is £0.002 per share and the exercise period is between one and five years from date of grant. 400,000 of these were exercised during 2007, and the remaining 2,000,000 options were exercised in March 2009.

In addition, on 1 December 2005, the company also granted 2,529,322 share options, the exercise price of which is £0.22 per share and the exercise period is from 7 December 2005 to 7 December 2010.

Notes to the Financial Statements

For the year ended 31 December 2009

24. SHARE PREMIUM ACCOUNT

	Group £	Company £
Balance at 1 January 2008	13,600,291	13,600,291
Premium arising on issue of equity shares	3,017,023	3,017,023
Expenses of issue of equity shares	(225,320)	(225,320)
Balance at 31 December 2008	16,391,994	16,391,994
Premium arising on issue of equity shares	2,852,327	2,852,327
Expenses of issue of equity shares	(218,031)	(218,031)
Balance at 31 December 2009	19,026,290	19,026,290

25. OWN SHARES HELD

	Group £
Balance at 1 January 2008	-
Movement in the year	(690,191)
Balance at 31 December 2008 and 31 December 2009	(690,191)

26. SHARE OPTION RESERVES

	Group £	Company £
Balance at 1 January 2008	209,398	209,398
Movement in the year	59,454	59,454
Balance at 31 December 2008	268,852	268,852
Movement in the year	111,034	111,034
Balance at 31 December 2009	379,886	379,886

27. RETAINED EARNINGS

	Group £	Company £
Balance at 1 January 2008	(9,904,693)	354,763
Net loss for the year	(3,999,326)	(15,770,827)
Balance at 1 January 2009	(13,904,019)	(15,416,064)
Net loss for the year	(2,652,260)	(2,362,531)
Balance at 31 December 2009	(16,556,279)	(17,778,595)

28. TRANSLATION RESERVE

	Group £
Balance at 1 January 2008	-
Exchange differences on translation of foreign operations	(373,948)
At 31 December 2008	(373,948)
Exchange differences on translation of foreign operations	145,834
At 31 December 2009	(228,114)

Notes to the Financial Statements

For the year ended 31 December 2009

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2009 £	2008 £
Operating loss for the year	(3,133,135)	(4,557,917)
Adjustments for		
Depreciation of property, plant and equipment	62,232	67,100
Amortisation of intangible assets	–	28,793
Share-based payment expense	111,034	59,454
Operating cash flows before movements in working capital	(2,959,869)	(4,402,570)
Increase in inventories	(45,734)	(667,111)
Decrease/(increase) in receivables	48,035	(114,411)
Decrease in payables	(45,363)	(429,528)
Cash reduced by operations	(3,002,931)	(5,613,620)
Income taxes received	602,851	4,293
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(2,400,080)	(5,609,327)

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with maturity of three months or less

30. OPERATING LEASE ARRANGEMENTS

The Group as a lessee

	2009 £	2008 £
Minimum lease payments under operating leases recognised as an expense in the year	82,132	88,423

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	2009 £	2008 £
Within one year	85,078	85,517
In the second to fifth years inclusive	236,579	276,823

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 5 years and rentals are fixed for an average of 5 years with an option to extend for a further 5 years at the then prevailing market rate

In Hong Kong leases are negotiated for an average term of 2 years and renegotiated at the end of the term

The Company as a lessee

	2009 £	2008 £
Minimum lease payments under operating leases recognised as an expense in the year	47,837	41,000

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	2009 £	2008 £
Within one year	55,000	51,500
In the second to fifth years inclusive	231,458	233,750

Notes to the Financial Statements

For the year ended 31 December 2009

31. CONTINGENT LIABILITIES

Neither the Group nor the company are aware of any contingent liabilities outstanding as at the date of this report

32 SHARE-BASED PAYMENTS

Equity-settled share option scheme

The company has a share option scheme for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of all the company's shares on the date of grant. The vesting period is 3 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 Group before the options vest.

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

	2009		2008	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	13,618,800	0.031	4,830,000	0.136
Granted during the period	1,350,000	0.023	14,118,600	0.031
Forfeited during the period	(5,525,000)	0.023	(5,329,800)	0.031
Exercised during the period	(415,250)	0.023	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	9,028,550	0.023	13,618,800	0.031
Exercisable at the end of the period	2,141,450	0.023	-	-

The options outstanding at 31 December 2009 had a weighted average exercise price of £0.009 and a weighted average remaining contractual life of 34 months. In 2009, options were granted on 24 June and 6 June. The aggregate of the estimated fair values of those options is £13,815. In 2008, options were granted on 20 March, 9 April, 23 May and 15 October. The aggregate of the estimated fair values of the options on those dates is £69,505.

The inputs into the Black-Scholes model are as follows

	2009	2008
	£	£
Weighted average share price	2.35p	3.13p
Weighted average exercise price	2.35p	3.13p
Expected volatility	73%	90%
Expected life	3 years	3 years
Risk free rate	2.98%	8.60%
Expected dividend yield	0%	0%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 12 months. 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 £111,034 and £59,454 related to equity-settled share-based payment transactions in 2009 and 2008 respectively.

Notes to the Financial Statements

33. RELATED PARTY TRANSACTIONS

	Company 2009 £	Company 2008 £
As at 1 January	270,852	211,398
Capital increase in respect of share based payments	111,034	59,454
As at 31 December	381,886	270,852

The capital contribution relates to share option compensation charge in respect of share options granted in the Company on behalf of employees in Cyan Technology Limited

During the period, the Group and Company paid £30,000 to Pentland Services (2008 £2,607) in respect of the non-executive director services of David Gutteridge. Pentland Services is a related party of the Company by virtue of the fact that David Gutteridge has an equity interest in it.

Group

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation. The ultimate holding company of the Group is Cyan Holdings plc. The members of the Group, both of which are 100% owned are as follows:

- | | |
|-------------------------|---|
| Cyan Technology Limited | <ul style="list-style-type: none"> - 100% of the issued capital of the company is held by Cyan Holdings plc - The company is incorporated in England and has an accounting period co terminus with that of the group - The principal activity of the company is to provide a vehicle to market and sell the group's range of microcontrollers - The company's results are consolidated into these accounts |
| Cyan Asia Limited | <ul style="list-style-type: none"> - 100% of the issued capital of the company is held by Cyan Holdings plc - The company is incorporated in Hong Kong and has an accounting period co terminus with that of the group - The principal activity of the company is to provide a sales and marketing service for the group's range of microcontrollers in Asia - The company's results are consolidated into these accounts |

Company

Transactions between the company and its subsidiaries and associates are disclosed below:

	2009 £	2008 £
Loan to related parties		
Cyan Technology Limited	16,563,991	14,512,059
Cyan Asia Limited	1,989,909	1,792,133
	18,553,900	16,304,192

The loans due from subsidiary undertakings are fully provided for by Cyan Holdings plc.

The balances due to Cyan Holdings plc do not carry an interest charge. Cyan Holdings plc makes a management charge for services rendered to Cyan Technology Limited. In the year to 31 December 2009 these amounted to £346,245 (2008 £399,681).