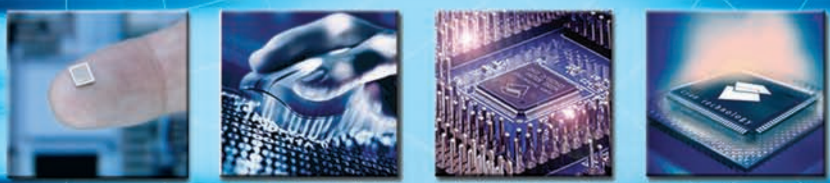
Annual Report and Financial Statements 2006



cyan holdings plc

Cyan is a fabless semiconductor business specialising in the development of 16 and 32 bit microcontrollers with integrated and configurable peripherals that enable our customers to reduce the Bill of Materials cost of their products.

Cyan microcontrollers reduce the cost of a wide range of customers products by integrating, on chip, an extensive range of flexible peripherals that replace and save the cost and power of external components. Their low power consumption makes them ideal for battery powered products such as asset trackers, GPS and other handheld products.

Cyan focuses on reducing system cost and improving the productivity of our users – our customer's design engineering team. We achieve this by supporting the designers who are developing products that use microcontrollers with our revolutionary Integrated Development Environment – CyanIDE. This free and downloadable software tool, in partnership with Cyan's low cost hardware development systems, allows a design engineer to use a Cyan microcontroller without the need to reference complex instruction manuals. CyanIDE operates through an intuitive graphical user interface on a personal computer, where the design engineer can select the functions that he wishes to remove from off chip components and implement on the Cyan microcontroller through a simple click, drag and drop procedure. CyanIDE automatically and in seconds generates the code required to configure the microcontroller thus speeding the design process and eliminating the risk of manual errors.

Work that can normally take weeks is reduced with CyanIDE to a few hours.

This integrated Development Environment then provides support for the development of our customers product application code.

Ease of use, faster programming and automatic generation of peripheral configuration code means fewer errors and a shorter product development cycle. CyanIDE supports automatic change of microcontroller simplifying the task of upgrading or creating product variants and encouraging customer loyalty.

Customers benefit from lower Bill of Material costs, lower power consumption, quicker and cheaper product development resulting in a shorter time to market with a more competitive product.

Chairman's Statement

Professor Michael Hughes

- Strategic review completed
- New CEO appointed and executive team restructured
- eCOG1X product range available and well received by customers
- Trials commenced by Chinese authorities on the EPOS based tax collection project
- Sales Revenue of £269k, an order of magnitude increase from £30k in 2005
- Sales revenues have been significantly impacted by the delay in the roll out of the Chinese tax terminal project which is now expected in mid 2007
- Retained Loss of £2,533k and Cash Balance of £2,821k in line with expectations

I am pleased to report on the activities of Cyan for the twelve months to 31 December 2006.

During the last quarter of 2006 we conducted a strategic review of our business model including an assessment of our product offerings by industry experts. We are satisfied that our current and in development range of eCOG microcontrollers, along with its powerful CyanIDE toolset, meet the demands of our customers and will deliver sustainable growth in a global and expanding market.

The strategic review highlighted both the strengths and weaknesses of our chosen routes to market. The Board has responded quickly in order to build on our strengths and eliminate our weaknesses. The most significant change is to increase our focus on our major market, China, through improved product offerings supported by a restructuring of our executive management team.

We are pleased to announce the appointment of Kenn Lamb as CEO as from 11 April 2007. Kenn was CEO of Elixent Ltd from 2001 to 2006 where he completed a successful sale of the business to Matsushita of Japan. Prior to Elixent Kenn was Senior VP Sales at ARC International, a RISC processor semiconductor business, where he managed the restructuring of the international sales team building sales from zero. After two years of sales growth ARC completed a successful London Stock Exchange flotation in September 2000 with a market capitalisation of £500m. Before joining ARC Kenn was Managing Director of Actel Inc's European FPGA businesses where his team quadrupled sales in two years through close management of the distribution sales channel. Kenn's experience of microprocessors and configurable peripheral technology is ideal for Cyan's product range.

As a consultant, Kenn led the strategic review of both our approach to the market and the restructure of our management team, and now joins us to manage the implementation of the new strategy and accelerate the growth of our business.

Paul Johnson will report to Kenn Lamb and will retain his title of President and CTO given his role as founder of the company and to underline his importance in the company when in senior level discussions in the Far East. Paul is pleased to be able to concentrate on the development of Cyan's product range and the supporting CyanIDE software tools as well as working to increase the engineering capabilities of our team in China. Cyan has a clear product road map and will be launching important new products in 2008.

As a consequence of the increased focus on China we have agreed that Paul Barwick, our sales director, will leave the company on 31 March 2007.

Dominic Lun General Manager of Cyan Asia Limited will report directly to the CEO with responsibility for all activities in China. I wish to thank Paul for his important contribution to our business.

Paul has helped to build a strong team in China where we now have over 200 customers showing serious interest in our product range and our top 10 Chinese design wins, excluding the tax collection project, have potential for sales of almost one million units per annum. Our strategy is to become the provider of choice for microcontrollers in the domestic Chinese market; a market which is growing very quickly. We will do this by focussing on China, strengthening our Chinese team and widening their range of activities, partnering with Chinese subcontractors, developing products specifically for the Chinese internal market and using our relationship with subcontractors to influence our penetration of the European market. We believe that we are well placed to vigorously put this strategy into practice.

Microcontrollers remain a buoyant and growing market. Cyan offers customers the opportunity to reduce their Bill of Material cost by integrating the functions of normally separate peripheral devices on to the Cyan MCU chip. This approach reduces component costs, reduces system power supply needs, and reduces assembly and test costs. Our unique software development tool, CyanIDE, then allows the chip assembler coding of peripherals through a straightforward graphical process that reduces development time and therefore cost. This approach allows the user to focus on the more important applications software, and makes a tedious part of the development process much simpler. Overall the customer achieves lower development costs, lower production costs, and a shorter time to market.

The recent availability of the eCOG1X product range together with the improved CyanIDE tool, version 1.4,considerably widens the range of applications and customers that we can address. A measure of interest in the new range is orders for development kits reaching over 100 units in just two months.

The eCOG1X is a considerable technical achievement and has moved through its production phase with no problems. We are now able to manufacture in volume to meet our customers needs.

We have reported previously in our Interim Statement in 2006 and in our 2005 Annual report on the delays on the Chinese tax collection project and its impact on our sales and growth. We are pleased to report that the Chinese authorities have now commenced trials of terminals in a commercial setting. Our Chinese customer, Pinnacle, has 300 units on trial in petrol stations in Shanxi province, and Hainan province has issued a request for tenders. Roll out is now expected in mid 2007. Pinnacle is one of China's most successful Point of Sale manufacturers with an historical 20% market share. Operating from 32 sales and support offices thoughout China, it expects to be very successful in the new market. The total market in the first three or four years of roll out is expected to run into tens of millions of units. Other, smaller, design wins, are starting to enter their production phases as covered in Chief Executive's Review.

We have refocused our sales capability in Europe by the appointment of Glyn as our German Distributor. With a turn-over in excess of 100 million Euros, Glyn is now Cyan's largest distributor outside China where Cyan has already seen significant design-ins and orders. We are also pleased that the Spectrum Group of independent sales, marketing and operations (ISMO) organisations have been signed to assist the Company in the development of its business across Europe. The move will help Cyan in particular to expand its links with key European OEMs and capitalise on the recent availability of its new eCOG1X microcontroller. Initially, the agreement will span the UK, France, Scandinavia, Benelux, Italy and Spain.

I wish to thank my fellow directors, our management team and employees, and in particular our loyal shareholders for their support during our maiden year on AIM.

We are confident that our new strategy and restructured management team will lead us to success in 2007.

M. Hughes

Professor Michael Hughes
Chairman

Chief Executive's Review of Operations

"Cyan is exceptionally well positioned to benefit from the pace of growth in China through a combination of existing relationships with sales channels, manufacturing partners and the established Cyan Asia team. The Chinese domestic market has characteristics different to those in other geographies and is particularly well suited to the features provided by Cyan's product range."

Dr Paul Johnson

During our first year as a public company we achieved many things; considerable progress in our product development, broader recognition in the market place, and 44 additional design wins with a sales potential of 1.8 million units per annum out of a total to date of just over 3 million per annum. The movement of design wins to full production has, however, been slower than our customers predicted. We therefore undertook a strategic review covering our product range, value proposition to our customers and the potential of our market areas in the fourth quarter of the year. Kenn Lamb, an experienced professional in the semiconductor industry led the review which incorporated meetings with customers in the UK, USA and China. This review concluded that:

- The ability of our product to absorb functions in a customer's design which would usually be provided by separate peripheral components, delivers a cost saving that represents a significant incentive to design-in Cyan products. Competitors must either match this functionality or aggressively discount their products if they are to offer comparable cost savings, which provides the opportunity for Cyan to secure a product margin above the industry. The new eCOG1X family significantly enhances Cyan's ability to deliver these cost savings, which will become apparent throughout the coming year.

- The ability of our software tool, CyanIDE, to automate the set-up and programming of peripherals through a simple graphical process and then support automated MCU change is unique and is of significant value to our customers. The current release of CyanIDE demonstrates this capability and the tool will be enhanced to provide new and extended features that will speed up the design-in of the Cyan MCU, increase the range of supported peripheral functions, substantially reduce the customers development time and hence offer additional cost savings. By achieving this, our customers have the opportunity to get their product to market more rapidly thereby establishing the potential for enhanced market share and hence greater profitability.

- Cyan is exceptionally well positioned to benefit from the pace of growth in China through a combination of existing relationships with sales channels, manufacturing partners and the established Cyan Asia team. The Chinese

domestic market has characteristics different to those in other geographies and is particularly well suited to the features provided by Cyan's product range. We therefore intend to expand our presence in China, exploit the low cost environment by extending the engineering capability of our Chinese team and to develop products specifically for the Chinese domestic market. Cyan has been particularly successful in penetrating this market through our investment in technology demonstrators, application notes and one-stop-shop support.

Prime examples of such design wins include a customer who has designed a special pay-phone using contactless smart cards, which will also act as a "clocking in and out" terminal, and will be installed in factories throughout China. This is a project for the largest fixed-network service provider in China and the volumes are estimated at 100,000 plus per annum. The initial design utilises the eCOG1k and has commenced field trials. This customer is already planning to expand its product range to incorporate an LCD display to support advertising and eventually videocalls which will require the eCOG1X product and application notes are already under development. CyanIDE's ability to automate the transition between the eCOG1k and eCOG1X is an example of the value to the customer of the CyanIDE tool and creates a barrier for competitors who would otherwise be candidates for the new designs.

A second design win is with a Chinese customer who first used the eCOG1k to implement a WebServer based on a Cyan application note for remote monitoring of shipboard equipment. The success of this product has resulted in the company considering plans to expand into the much larger Chinese industrial control market. A new project at the same company required a low cost RF communications system and it selected a Cyan technology demonstrator for the prototype. This product synchronises the illumination of navigation buoys and will be initially deployed in Chinese ports but the company intends to make applications for licences enabling worldwide deployment. A key design problem required a robust software solution that is being developed by Cyan Asia's

engineers as an example of one-stop-shop support.

- The majority of consumer end products that are well suited to benefit from the advantages of Cyan's MCU's are manufactured by global subcontractors who offer their customers a complete design, development, and manufacturing service. Cyan will take steps in the coming year to realise a strategy specifically targeted at these subcontractors. The strategic review identified areas in which variants of Cyan's products could improve a subcontractor's competitiveness.

- The European market, like Japan is challenging for new vendors to establish an initial foothold. Cyan has enjoyed initial success in these markets through the development of technology demonstrators that implement a complete system built around the Cyan MCU. Cyan has developed relationships with manufacturers in China who already sell large volumes of consumer electronic products into Europe. These manufacturers focus on developing production products from technology demonstrators such as those developed by Cyan. Cyan will pursue proposals by these manufacturers to make available production ready versions of Cyan's technology demonstrators in the form of modules to be sold back into the European market. The modules will accelerate the adoption and use of the Cyan MCU in Europe, overcoming the barrier for new vendors and providing a platform on which the advantages of the CyanIDE tools can be easily appreciated by customers.

Technical Highlights

Our new product family eCOG1X became available at the end of 2006 and has been very well received by the number of customers who were able to start their designs without the chip, thanks to the CyanIDE tools. It performs better than we could have hoped for and so far, after extensive testing, we have no bugs to report. I am pleased to say that the total cost of the eCOG1X design and development project was less than £1.25 million which is an incredibly small amount of money for the development of a chip as complex as the eCOG1X. This is a testament to our R&D methodology and our rapid design processes, providing complex yet accurate designs.

Our R&D group has not just been designing the eCOG1X chip. The peripherals and rapid design processes are applicable to all the microcontrollers we plan to design in the years to come. Part of that is our own 32 bit core to be used initially in eCOG2. I am pleased to announce that we have the core running in the lab for the first time. This is a very modern 32 bit core designed specifically for low power consumption, very high processing power and minimal memory requirements. All these features are essential for future 32 bit product designs. Owning our own core gives Cyan enormous freedom to structure our business without the royalty issues associated with licensing third party cores.

CyanIDE V1.4 has now been released which fully supports the entire eCOG1X range. This was a significant piece of work as CyanIDE needed to be capable of supporting over thirty devices in two product families and be structured so that it can handle 100s of products in the future. This is the fifth major release of CyanIDE since the company commenced in 2004.

As I said at the head of this review, 2006 has been a very full year and we have achieved a great many things in developing the potential of our business. I would like to take this opportunity to thank our employees for their enthusiasm and hard work.

The Board believes that Cyan has established a range of products that are leaders in their own field and has identified a market in which their full potential can be exploited. We look forward to 2007 being a significant year in the evolution of the Group's prospects.

I am delighted that Kenn has agreed to join us to lead the implementation of our strategy which applies feedback from users secured over the last year and builds on our product strengths to provide a firm foundation for sustainable growth. Kenn's appointment as CEO allows me to concentrate on our development activities and the strengthening of our engineering capability in China.

Dr Paul Johnson
Chief Executive
29th March 2007

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 December 2006.

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.

Enhanced Business Review

The year ended 31 December 2006 was one of considerable change for Cyan Holdings plc. During the course of the year the Group further enhanced relationships with customers in the Far East and in particular within China. We have proactively looked for a Chinese company who could be our partner in developing the Chinese market for Cyan products. As a result, signing a Letter of Intent in October 2006 with Chengdu GoldTel Industry Group Limited ("GoldTel") marked a significant step forward in developing close relationships with key companies in the electronics sector. GoldTel's product offerings include telecoms, asset tracking, power industry, silicon products, and retail systems with 90% of sales made in China.

Cyan remains well placed to take advantage of its foothold in the Chinese market and already a number of medium sized design wins have indicated an increased level of traction with customers in the region. Whilst the impact of the delay in the shipping of tax terminals by our Chinese customer on our sales of chips to date has been well documented, the fact that shipments have now commenced is a source of great encouragement.

The launch of a new family of chips, the eCOG1X range at the end of 2006 also marks a significant change for the company, turning it into a multi product group and enhancing the offering it can make to customers.

At this stage in the development of the group, the directors do not consider it appropriate to monitor a range of Key Performance Indicators as it is their opinion that these would add very little value to an understanding of the performance of the Group. However the one figure that is perhaps pertinent to shareholders is the rate of cash burn. During the year ended 31 December 2006 the average monthly cash burn of the company was £230,000 (2005: £183,000 excluding the impact of funds raised during the year). The increased cash burn reflects the expenditure on bringing the eCOG1x chip family to fruition.

This year for the first time we are required under the Companies Act to report on the types of risk and uncertainty that will affect our business model. The material risks and uncertainties likely to impact Cyan are all connected to the size and speed of market penetration. Clearly 2007 will be an important year for Cyan and the impact of the new eCOG1X family has yet to be seen. There are risks associated with the speed of take up of this product range. There are also the normal risks associated with the conversion rate of design wins already won, that can potentially impact on sales of the existing eCOG1K chip. There is a specific risk associated with the collection of the debt due from Pinnacle referred to in note 16. Obviously engaging in any new relationship such as that noted with GoldTel above also carries a measure of risk relating to the speed and size of volume sales coming from that relationship. Finally in any technology business of this nature there is a risk associated with hiring and retaining suitably qualified staff who are capable of delivering the company's business plan and strategic goals.

Going Concern

The Board is satisfied that the Group has adequate financial resources to continue to operate for the foreseeable future and is financially sound. For this reason the going concern basis is appropriate for the preparation of these financial statements.

Results and dividends

The trading results for the year together with the Group's and Company's financial position at the end of the year are shown on pages 17 to 32. This Directors' report should be read in conjunction with the Chairman's Statement on page 1 and the Chief Executive Officer's review on page 3 which include information about the Group's business performance during the year and an indication of future prospects.

The Directors do not recommend the payment of a dividend (2005: £nil). The Company has no plans to adopt a dividend policy in the immediate future and that 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.

Directors and their interests

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

Executive Directors
Dr Paul Johnson
Andrew Lee
Paul Barwick

Non – Executive Directors
Professor Michael Hughes
Dr John Read

The interests of the Directors in the shares of the company are shown in the remuneration committee report on page 13.

Research Design and Development

The Group is committed to the research, design and development of a range of microcontroller chips and general purpose digital semiconductors. The costs relating to this work are written off as incurred. In the year such costs incurred amounted to £421,115 (2005: £499,131).

Significant Holdings

In addition to the Directors interests shown in the remuneration committee report on page 13 the following shareholders had interests of 3% or more of the company's share capital at 29 March 2007:

	Shares	%
Peter Lobbenberg	9,200,000	10.81
AIM Realisation Fund	3,350,000	3.94
Janice Sugarman	3,188,438	3.75

A liability insurance policy was in force in respect of all of the directors as at the date of approval of this Annual Report.

Derivatives and other financial instruments

The main purpose of the group's financial instruments is to raise finance for its operations. It is not the group's policy to trade in financial instruments, although strategic acquisitions may be made where it is considered that they will further the group's objectives.

(a) Liquidity and interest rate risk

The group finances its operations primarily through the issue of share capital. Funds for the issue of share capital are on deposit to maximise the interest obtained from them whilst providing sufficiently flexible access to the funds to meet the group's requirements. The deposits are on floating interest rates based on bank base rates.

(b) Foreign currency risk

The group operated in Hong Kong through its subsidiary, Cyan Asia Limited, whose expenditure is denominated in Hong Kong dollars. In the year ended 31 December 2006 this expenditure accounted for 9.0% of the group's operating costs (2005 – 6.4%). The group financed its net investment of Cyan Asia Limited by means of sterling funds.

Sales are made to customers in Hong Kong. These sales are priced in sterling but invoiced in the currencies of the customers involved. Any exchange gains or losses arising from the settlement of these transactions are dealt with in the profit and loss account.

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.

Annual General Meeting

The notice of the Annual General Meeting to be held on 30 April 2007 is set out on pages 33 to 34 together with explanatory notes relating to the resolutions. Deloitte & Touche LLP have been auditors since the incorporation of the Company. A resolution to reappoint them will be proposed at the Annual General Meeting.

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

Andrew Lee
Finance Director
29 March 2007

Board of Directors

Prof Michael Hughes
Non Executive Chairman
(aged 61)

Professor Michael Hughes spent 25 years at General Electric Company (GEC) in Technical Director and Managing Director roles. His responsibilities included development, production, and sales of analogue and digital electronic control and automation products worldwide. He became Executive Director Engineering of Midlands Electricity plc in 1990 and became its Chief Executive in 1993. After the purchase of Midlands by the American utility GPU in 1996, he became Executive Vice President of the GPU International Operations Group operating in America, England, Australia, and Argentina. Professor Michael Hughes is currently a Non-Executive Director of Oxford Instruments plc and the South Staffordshire Group, and the Non-Executive Chairman of EA Technology Ltd. He joined the board of Cyan Holdings plc on 6th July 2005 and is Chairman of the Audit Committee.

Dr Paul Johnson
Chief Executive
(aged 55)

Dr Paul Johnson was awarded his Ph.D. in Electronics from Bradford University in 1978. His research was in very high-speed analogue to digital converters with emphasis on the requirements of digital television. Dr Johnson's industrial career started at Cambridge Consultants Limited where he primarily worked on high-speed analogue to digital converters, sonar and imaging systems. He then went on to found one of the initial Cambridge companies involved in personal computing in the early 1980s, giving him a great deal of experience in the design and manufacturing of high volume products. During the mid 1980s, he founded a small design company specializing in ASIC (Application Specific Integrated Circuit) and product design and developed a number of innovative products and design methodologies. Dr Johnson is the founder of Cyan Holdings plc.

Andrew Lee
Finance Director
(aged 47)

A graduate of University College London, Andrew is a Chartered Accountant with 8 years experience with Ernst and Young, mostly as a senior manager and has worked in the Far East and Australia. In 1993 he was responsible for setting up and running the Vietnamese practice. He was appointed UK Group Finance Director for Hachette in 1994 with the responsibility of restructuring the UK based businesses. The turnaround was successfully completed within two years, restoring the business to profit. Andrew left to form his own consulting business concentrating on commercial and financial activities for young businesses and start-ups. He was a co founder and director of The Libary House Limited. He joined Dr Paul Johnson as a founder of Cyan Holdings plc in February 2003 and joined the Board of the Company on 3rd November 2003. He is currently a Non-Executive Director of Hereward Innovation Centre Limited and Birmont plc.

Paul Barwick
Sales Director
(aged 58)

Paul Barwick's entire career has been in the electronics industry. After an apprenticeship in electronics and working as a field sales engineer, Paul went on to spend eleven years at Jermyn Electronics, a sales and distribution business, where he became sales director, responsible for a sales force of 100 employees. In 1985 Paul left to become general manager at Hawke Components, an electronics distributor with major franchises such as Texas and Motorola. Since 1989, Paul has concentrated on a variety of consultancy and start up propositions; using his expertise in sales to help young businesses graduate from ideas to commercial reality. Paul joined the Board of Cyan Holdings plc on 7th April 2004.

Dr John Read
Non Executive Director
(aged 65)

Dr John Read is an experienced manager with a record of developing profitable high-tech semiconductor businesses. In the late 1990's he was 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 director of Alphamosaic Limited (which was sold to Broadcom Europe Limited) and served on the board of Anadigm Limited from 2000-2003. 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 of STC Telecommunications and director of engineering at Honeywell's Solid State Electronics in Minnesota. Dr Read is a director of two semiconductor companies, Si-Light Technologies Limited and Enecsys Limited and also Iceni Advisory Limited. He joined the board of Cyan Holdings plc on 30th November 2005 and is Chairman of the Remuneration Committee.

Corporate Governance

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. The Board comprises five Directors, two of whom are independent Non-Executive Directors. Neither of the Non-Executive Directors has 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. M Hughes chairs the Audit Committee and J Read, the Remuneration Committee.

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.

Remuneration Committee Report

Remuneration Committee

The remuneration committee comprises the two Non Executive Directors of Cyan Holdings plc and is chaired by Dr John Read. The committee is responsible for the review and recommendation of the scale and structure of remuneration for executive directors and senior management, including the award of share options.

Remuneration Policy

The company's policy on directors' remuneration is that the overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality executives capable of achieving the group's strategic objectives and thereby enhance shareholder value. The package comprises a mix of basic salary, benefits, share options, and pensions.

The company has adopted a share dealing code for directors in accordance with AIM rules and will take proper steps to ensure compliance by all directors.

Incentive Arrangements

It is anticipated that the group will continue to expand its team in line with the needs of a company at its stage of development and growth and therefore the granting of further options over ordinary shares will form an important part of the group's plans to attract, retain and incentivise key staff members. Accordingly the company has been given authority to grant options to subscribe to up to 10% of the company's issued ordinary share capital in any rolling ten year period.

Pensions

On 1 January 2007, the company initiated a contributory pension scheme for all staff whereby the company will offer to pay 5% of annual salary into a defined contribution pension scheme run by Friends Provident. Directors have been offered the same 5% contribution as other employees. Throughout the year to 31 December 2006 the company operated a stakeholders pension scheme for the benefit of all employees but did not make any contributions to the personal pension plans of the directors.

Director's Shareholdings in the Company

	2006 number of ordinary shares	2006 %	2005 number of ordinary shares	2005 %
Dr Paul Johnson	16,295,454[1]	19.16%	16,295,454	19.29%
Andrew Lee	2,045,454[2]	2.41%	2,045,454	2.42%
Paul Barwick	322,727[3]	0.38%	322727	0.38%
Prof Michael Hughes	340,909	0.40%	340909	0.40%
Dr John Read	113,636	0.13%	113,636	0.13%

1 Dr Paul Johnson has a beneficial interest in 16,295,454 shares, of which 22,727 are held in his own name, 22,727 in the name of Afia Dafoor and he has a beneficial interest in 16,250,000 held in the name of Technology Developments Limited.

2 Andrew Lee has a beneficial interest in 2,045,454 shares, of which he holds 1,705,454 shares in his own name and has a beneficial interest in the 340,000 shares held by Even Handed Licensing Limited.

3 Paul Barwick has a beneficial interest in 322,727 shares, of which he holds 22,727 shares in his own name and 300,000 are held by his wife Mrs D. Barwick.

Remuneration Committee Report

Director's emoluments

2006	Basic Salary	Fees £	Bonus £	Total 2006 £	Pension contributions 2006	Total 2005 £
Dr. Paul Johnson	125,000	-	-	125,000	-	69,583
Andrew Lee	81,075	-	-	81,075	-	52,416
Paul Barwick	100,000	-	-	100,000	-	67,499
Prof. Michael Hughes	-	50,000	-	50,000	-	9,167
Dr John Read	-	25,000	-	25,000	-	2,083
Barry Muncaster	-	-	-	-	-	104,459

Director's interests in share options

For the directors that held office at 31 December 2006 the following options were outstanding:

	At 31 December 2005	Issued in 2006	At 31 December 2006	Exercise periods	Exercise price
Dr Paul Johnson	-	-	-	-	-
Andrew Lee	-	-	-	-	-
Paul Barwick	691,500	-	691,500	15/5/2004-15/5/2014	10p
	2,000,000	-	2,000,000	30/11/2005-7/12/2010	0.2p
Prof. Michael Hughes	400,000	-	400,000	30/11/2005-7/12/2010	0.2p
Dr John Read	-	-	-	-	-

This report was approved by the board on 29 March 2007 and is signed on its behalf by:

John Read

John Read
Non-Executive Director
29 March 2007

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them on a consistent basis
- Make judgements and estimates that are prudent and reasonable
- State whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements and
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group to enable them to ensure that the accounts comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

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

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware; and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Independent Auditors' Report

Independent Auditors' Report to the Members of Cyan Holdings Plc

We have audited the group and individual company financial statements (the "financial statements") of Cyan Holdings plc for the year ended 31 December 2006 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and individual company balance sheets, the consolidated cash flow statement and the related notes 1 to 24 together with the analysis and reconciliation of net funds. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions with the company and other members of the group is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the individual company's affairs as at 31 December 2006 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter – trade debtors

In forming our opinion, which is unqualified, we have considered the adequacy of the disclosures made in note 16 of the financial statements concerning the possible outcome of amounts due from one of the group's customers. There is uncertainty over the timing and quantum of the amount which may be recovered.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Cambridge, United Kingdom
29 March 2007

Consolidated Profit and Loss Account

Year ended 31 December 2006

	Note	2006 £	2005 (as re-stated) £
TURNOVER: continuing operations	2	269,333	29,899
Cost of sales		(205,776)	(4,966)
Gross profit		63,557	24,933
Administrative expenses			
Share option charges		(173,529)	(13,966)
Other		(3,035,547)	(2,228,526)
		(3,209,076)	(2,242,492)
OPERATING LOSS: continuing operations		(3,145,519)	(2,217,559)
Interest receivable and similar income	3	205,898	61,970
Interest payable and similar charges	4	(69,225)	(12,621)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	5	(3,008,846)	(2,168,210)
Tax on loss on ordinary activities	8	475,557	67,381
RETAINED LOSS FOR THE FINANCIAL YEAR	20	(2,533,289)	(2,100,829)
LOSS PER SHARE (pence)			
Basic and diluted	10	(3.0)	(3.8)

Consolidated Statement of Total Recognised Gains and Losses

Year ended 31 December 2006

	2006 £	2005 (as re-stated) £
Loss for the financial year	(2,533,289)	(2,100,829)
Currency translation difference on foreign currency net investments	26,209	(5,400)
Total recognised gains and losses relating to the year	(2,507,080)	(2,106,229)
Prior year adjustment	(13,966)	–
Total recognised gains and losses recognised since last annual report	(2,521,046)	(2,106,229)

In the year ended 31 December 2006, the company was obliged to make a prior year adjustment (as explained in note 11) amounting to £13,966 against the result for the year ended 31 December 2005 as a consequence of a change in accounting policy.

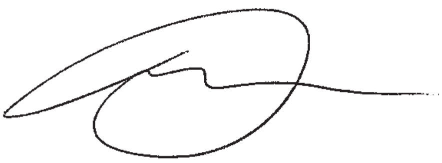
Consolidated Balance Sheet

31 December 2006

	Note	2006 £	2005 (as re-stated) £
FIXED ASSETS			
Intangible assets	12	-	4,000
Tangible assets	13	136,249	163,236
		136,249	167,236
CURRENT ASSETS			
Stocks	15	107,922	59,583
Debtors	16	520,942	182,560
Investments – short term deposits		2,625,000	5,375,000
Cash at bank and in hand		195,801	192,680
		3,449,665	5,809,823
CREDITORS: amounts falling due within one year	17	(249,662)	(338,105)
NET CURRENT ASSETS		3,200,003	5,471,718
TOTAL ASSETS LESS CURRENT LIABILITIES, BEING NET ASSETS		3,336,252	5,638,954
CAPITAL AND RESERVES			
Called up share capital	19	170,070	168,621
Share premium account	20	8,627,630	8,598,230
Profit and loss account	20	(5,648,943)	(3,141,863)
Share option reserve	20	187,495	13,966
EQUITY SHAREHOLDERS' FUNDS	21	3,336,252	5,638,954

These financial statements were approved by the Board of Directors.

Signed on behalf of the Board of Directors



Andrew Lee
Director
29 March 2007

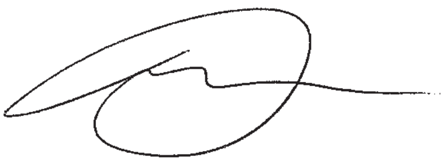
Company Balance Sheet

31 December 2006

	Note	2006 £	2005 (as re-stated) £
FIXED ASSETS			
Intangible assets	12	-	4,000
Tangible assets	13	57,586	86,378
Investments	14	189,495	15,966
		247,081	106,344
CURRENT ASSETS			
Debtors	16	6,268,467	3,407,557
Investments – short term deposits		2,625,000	5,375,000
Cash at bank and in hand		101,640	152,406
		8,995,107	8,934,963
CREDITORS: amounts falling due within one year	17	(48,822)	(203,966)
NET CURRENT ASSETS		8,946,285	8,730,997
TOTAL ASSETS LESS CURRENT LIABILITIES, BEING NET ASSETS		9,193,366	8,837,341
CAPITAL AND RESERVES			
Called up share capital	19	170,070	168,621
Share premium account	20	8,627,630	8,598,230
Other reserve – shares option reserve	20	187,495	13,966
Profit and loss account	20	208,171	56,524
EQUITY SHAREHOLDERS' FUNDS		9,193,366	8,837,341

These financial statements were approved by the Board of Directors.

Signed on behalf of the Board of Directors



Andrew Lee
Director
29 March 2007

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Note	2006 £	2005 £
Net cash outflow from operating activities	22	(3,133,246)	(2,015,849)
Returns on investments and servicing of finance	23	136,673	49,349
Taxation	-	264,194	-
Capital expenditure and financial investment	23	(45,349)	(66,114)
Cash outflow before management of liquid resources and financing		(2,777,728)	(2,032,614)
Management of liquid resources	23	2,750,000	(5,375,000)
Financing	23	30,849	7,396,835
Increase (Decrease) in cash in the year		3,121	(10,779)

ANALYSIS AND RECONCILIATION OF NET FUNDS

	At 1 January 2006 £	Cash flow £	31 December 2006 £
Cash at bank and in hand	192,680	3,121	195,801
Current asset investments	5,375,000	(2,750,000)	2,625,000
Net funds	5,567,680	(2,746,879)	2,820,801

	2006 £	2005 £
Increase (decrease) in cash in the year	3,121	(10,779)
Cash (inflow) outflow from (decrease) increase in liquid resources	(2,750,000)	5,375,000
Change in net funds resulting from cash flows	(2,746,879)	5,364,221
Movement in net funds in year	(2,746,879)	5,364,221
Net funds at 1 January	5,567,680	203,459
Net funds at 31 December	2,820,801	5,567,680

Notes to the Financial Statements

31 December 2006

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards.

The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Basic of consolidation

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

Intangible fixed assets

The intellectual property is amortised in equal annual amounts over a period of three years. The amortisation started in January 2004 when the exploitation of the intellectual property commenced.

Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

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

Stocks

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

Research and development

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

Foreign exchange

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

Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

Taxation

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

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

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Turnover

Turnover is principally derived from the sale of integrated circuits and is stated net of trade discounts and value added tax. Revenue is recognised on despatch, which is deemed to be the point at which the risks and rewards of ownership are transferred.

Notes to the Financial Statements

31 December 2006

1. ACCOUNTING POLICIES (continued)

Share-based payments

The group has applied the requirements of FRS20 (IFRS2) Share-based Payment.

The group issues equity-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 pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Notes to the Financial Statements

31 December 2006

2. SEGMENT INFORMATION

The turnover, which arises in the United Kingdom, is attributable to the group's principal activity.

A geographic analysis of turnover has not been provided on the grounds that materially all of the turnover originated in the Far East.

	United Kingdom		Far East		Group	
	2006	2005 (re-stated)	2006	2005	2006	2005 (re-stated)
	£	£	£	£	£	£
Segment (loss)	(2,930,602)	(2,074,657)	(214,917)	(142,902)	(3,145,519)	(2,217,559)
Operating (loss)	(3,930,602)	(2,074,657)	(214,917)	(142,902)	(3,145,519)	(2,217,559)
Finance charges (net)					136,673	49,349
(Loss) on ordinary activities before taxation	(3,008,846)	(2,168,210)				
Segment net assets (liabilities)	3,668,240	5,782,354	(331,988)	(143,400)	3,336,252	5,638,954
Net assets					3,336,252	5,638,954

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2006	2005
	£	£
Unrealised exchange gains	23,682	24,111
Bank interest receivable	182,216	37,859
	205,898	61,970

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2006	2005
	£	£
Realised and unrealised exchange losses	68,998	10,497
Bad debts	-	175
On bank loans and overdrafts	227	1,949
	69,225	12,621

5. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2006	2005
	£	£
Loss on ordinary activities before taxation is after charging:		
Depreciation – owned assets	72,921	58,487
Research and development expenditure	421,115	499,131
Amortisation of intellectual property	4,000	4,000
Rentals under operating leases		
Land and buildings	58,022	51,424
The analysis of auditors' remuneration is as follows:		
Fees payable to the company's auditors for the audit of the company's annual accounts	16,100	12,000
The audit of the company's subsidiaries pursuant to legislation	12,000	10,000
Total audit fees	28,100	22,000
Other services pursuant to legislation:		
– Tax services	5,500	26,000
– Corporate finance services	–	135,250
Total non-audit fees	5,500	161,250

During the year ended 31 December 2005 the auditors received £135,250 in respect of the admission of the company's shares to the Alternative Investment Market. The costs have been charged to the share premium account.

Notes to the Financial Statements

31 December 2006

6. STAFF COSTS

Group

	2006 No	2005 No
Average number of persons employed (including executive directors)		
Sales and administration	22	13
Research and development	17	11
	39	24

	£	£
Staff costs during the year (including directors)		
Wages and salaries	1,642,960	1,064,027
Social security costs	178,670	97,724
Share based payments	173,529	13,966
	1,995,159	1,175,717

Company

	2006 No	2005 No
Average number of persons employed (including executive directors)		
Finance and administration	5	5

	£	£
Staff costs during the year (including directors)		
Wages and salaries	–	100,000
	–	100,000

7. DIRECTORS' REMUNERATION

	2006 £	2005 £
The remuneration of the directors of the company was as follows:		
Emoluments	381,075	305,207
	381,075	305,207

The aggregate of emoluments of the highest paid director was £125,000 (2005: £104,459).

Pensions

During the current and preceding year no director was a member of a defined benefit or defined contribution pension scheme to which the company contributes.

Notes to the Financial Statements

31 December 2006

8. TAX ON LOSS ON ORDINARY ACTIVITIES

	2006 £	2005 £
Current taxation		
United Kingdom corporation tax credit	(475,557)	(67,381)

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2005 – 19%). The actual tax charge for the current and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation:

	2006 £	2005 (restated) £
Loss on ordinary activities before tax	(3,008,846)	(2,168,210)
Tax on loss on ordinary activities at standard rate	(571,681)	(411,960)
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	2,850	653
Capital allowances less than depreciation	12,196	8,525
Current year losses not recognised	308,691	452,803
Utilisation of brought forward losses	-	(5,352)
Losses surrendered in respect of R&D tax credit	331,009	-
Enhanced R&D expenditure	(110,336)	(47,323)
R&D tax credit receivable - current year	(278,744)	-
Share options charge - not deductible for tax purposes	32,971	2,654
Tax deduction available on exercise of share options	(5,700)	-
R&D tax credit receivable - prior year	(196,813)	(67,381)
Total actual amount of current tax credit	(475,557)	(67,381)

Analysis of deferred tax balances

Group

	Unprovided 2006 £	Unprovided 2005 £
Accelerated capital allowances	(1,006)	(21,609)
Tax losses	708,115	611,605
Timing difference with respect to share options	29,924	2,654
	737,033	592,650

Company

	Unprovided 2006 £	Unprovided 2005 £
Accelerated capital allowances	(10,941)	(16,412)
Tax losses	-	4,082
Timing difference with respect to share options	29,924	2,654
	18,983	(9,676)

A deferred tax asset has not been recognised in respect of the revenue losses as there is insufficient evidence that the asset will be recovered in the immediate future. The asset would be realised if Cyan Technology Ltd began to make future taxable income.

9. PROFIT ATTRIBUTABLE TO THE COMPANY

The profit for the financial year dealt within the financial statements of the parent company was £151,647 (2005 re-stated: £123,409). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

Notes to the Financial Statements

31 December 2006

10. LOSS PER SHARE

The calculations or earnings per share are based on the following losses and numbers of shares.

	Basic and diluted 2006 £	2005 (as re-stated) £
Loss for the financial year	(2,533,289)	(2,100,829)

	2006 No	2005 No
Weighted average number of shares: For basic and diluted loss per share	84,814,709	54,823,213

11. SHARE BASED PAYMENTS

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

	2006	2005
Weighted average share price	24.5 pence	20.8 pence
Weighted average exercise price	24.5 pence	20.8 pence
Expected volatility	44%	44%
Expected life	3 years	20 months to 5 years
Risk-free rate	4.33%	4.11% – 5.19%
Expected dividends	0%	0%

Expected volatility was determined by calculating the historical volatility of the group's share price over the previous year as well as considering the historical volatility in the past year of comparable listed companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The group recognised total expenses of £173,529 and £13,966 related to equity-settled share-based payment transactions in 2006 and 2005 respectively.

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 the Company's shares on the date of grant. The vesting period is 3 years. If the options remain unexercised after a period of 5 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.

	2006		2005	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning	2,856,500	699,843	1,491,500	310,232
Granted during the period	1,300,000	318,500	1,415,000	294,320
Forfeited during the period	–	–	–	–
Exercised during the period	(300,000)	(73,500)	–	–
Lapsed during the period	(310,000)	(75,950)	(50,000)	(10,400)
Outstanding at the end of the period	3,546,500	868,893	2,856,500	594,152
Exercisable at the end of the period	2,246,500	550,393	2,856,500	594,152

The options outstanding at 31 December 2006 have a weighted average exercise price of 24.50 pence, and a weighted average remaining contractual life of 38.53 months. In 2006, options were granted on 22 March. The aggregate of the estimated fair values of the options granted on those dates is £105,659. In 2005, options were granted on 5 March, 30 March, 6 April, 30 April, 5 July, 5 September and 1 December. The aggregate of the estimated fair values of the options granted on those dates is £160,971.

Notes to the Financial Statements

31 December 2006

12. INTANGIBLE FIXED ASSETS

Group and Company

	Intellectual property £
Cost	
At 1 January 2006 and 31 December 2006	12,000
Accumulated depreciation	
At 1 January 2006	8,000
Charge in year	4,000
At 31 December 2006	12,000
Net book value	
At 31 December 2006	-
At 31 December 2005	4,000

13. TANGIBLE FIXED ASSETS

Group

	Leasehold property improvements £	Plant and machinery, tools and equipment £	Office equipment £	Fixtures and fittings £	Total £
Cost					
At 1 January 2006	34,089	153,352	39,584	40,568	267,593
Additions	–	2,766	34,005	11,771	48,542
Exchange difference	(2,048)	–	(776)	(369)	(3,193)
At 31 December 2006	32,041	156,118	72,813	51,970	312,942
Accumulated depreciation					
At 1 January 2006	7,919	62,081	19,996	14,361	104,357
Charge in year	6,408	31,372	23,868	11,273	72,921
Exchange difference	(272)	–	(251)	(62)	(585)
At 31 December 2006	14,055	93,453	43,613	25,572	176,693
Net book value					
At 31 December 2006	17,986	62,665	29,200	26,398	136,249
At 31 December 2005	26,170	91,271	19,588	26,207	163,236

Company

	Tools and equipment £
Cost	
At 1 January 2006 and 31 December 2006	143,964
Accumulated depreciation	
At 1 January 2006	57,586
Charge in year	28,792
At 31 December 2006	86,378
Net book value	
At 31 December 2006	57,586
At 31 December 2005	86,378

Notes to the Financial Statements

31 December 2006

14. INVESTMENTS HELD AS FIXED ASSETS

Company

	2006 £	2005 (restated) £
Cost		
At 1 January	15,966	2,000
Capital contribution to Cyan Technology Ltd arising as a result of share option charges	173,529	13,966
At 31 December	189,495	15,966

The investment relates to 100% ownership of subsidiaries, Cyan Technology Limited and Cytech Cores Limited both incorporated in England and Cyan Asia Limited, incorporated in Hong Kong.

Cyan Technology Limited operates in the United Kingdom, and its principal activity is to provide a vehicle to market and sell eCOG1, a revolutionary low power microcontroller.

Cytech Cores Limited has been dormant since incorporation.

Cyan Asia Limited operates as a marketing and promotion office for the group's products.

15. STOCKS

Group

	2006 £	2005 £
Finished goods	107,922	59,583
	107,922	59,583

16. DEBTORS

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Trade debtors	164,562	2,417	–	-
Amounts due from group undertakings	–	–	6,233,061	3,345,471
Other debtors	306,672	139,731	9,561	57,755
Prepayments and accrued income	49,708	40,412	25,845	4,331
	520,942	182,560	6,268,467	3,407,557

Included within trade debtors is an overdue amount of £157,780 in relation to a customer in China. The directors have assessed the need for a provision against this risk, are actively pursuing these amounts, have concluded that no provision is required at present, and are of the opinion that substantially all amounts from this customer are recoverable.

All amounts are due within one year.

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Trade creditors	149,748	139,931	14,577	44,674
Amounts due to group undertakings	–	–	2,000	2,000
Other taxes and social security	53,232	35,689	–	-
Accruals and deferred income	46,682	162,485	32,245	157,292
	249,662	338,105	48,822	203,966

Notes to the Financial Statements

31 December 2006

18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The directors' report provides an explanation of the role that financial instruments have had during the period in creating or changing the risks the group faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the period.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" ("FRS 13"). Certain financial assets such as investments in subsidiary companies are excluded from the scope of these disclosures.

As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

Interest rate profile

The group had no financial assets other than treasury deposits of £2,625,000 (2005: £5,375,000) which are part of the financing arrangements of the group.

Maturity profile of financial liabilities

At 31 December 2006 the group did not have any financial liabilities.

Fair values of financial assets and liabilities

For all financial assets and liabilities book values are considered to approximate fair values.

Hedging

It is not the group's current policy to hedge interest rate and foreign currency risk.

Currency exposures

The group had no material currency exposures at 31 December 2006 or 31 December 2005.

19. CALLED UP SHARE CAPITAL

	2006 £	2005 £
Authorised		
150,000,000 (2005: 150,000,000) ordinary shares of £0.002 each	300,000	300,000
Called up, allotted and fully paid		
85,034,814 (2005: 84,310,749) ordinary shares of £0.002 each	170,070	168,621
Ordinary shares		
Balance at 1 January 2006	168,621	81,182
New issue	1,449	87,439
Balance at 31 December 2006	170,070	168,621

During the year 724,065 ordinary shares were issued as a result of the exercise of options and warrants for £30,849. The resultant premium of £29,400 has been credited to the share premium account.

Enterprise Management Incentive Scheme ("EMI Scheme")

Date granted	Number of options	Exercise price per share	Exercise and vesting period
15/05/2004	1,491,500	£0.10	(i)
05/03/2005	150,000	£0.15	(i)
01/05/2005	650,000	£0.15	(i)
05/07/2005	75,000	£0.15	(i)
05/09/2005	490,000	£0.15	(i)
22/03/2006	1,300,000	£0.245	(ii)
	4,156,500		

Notes to the Financial Statements

31 December 2006

19. CALLED UP SHARE CAPITAL (continued)

(i) Options vest and may be exercised as follows:

12 months from date of grant	25 per cent
24 months from date of grant	a further 25 per cent
36 months from date of grant	a further 25 per cent
48 months from date of grant	a further 25 per cent

Notwithstanding the vesting provisions above, the options vest entirely in the event of a sale or relevant listing.

The share options have a 10 year exercise period from the date of grant.

(ii) Options vest and may be exercised on the third anniversary of the date of the grant.

The share options have a 10 year exercise period from the date of grant.

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.

In addition, on 1 December 2005, the company also granted 2,107,769 share options, the exercise price of which is £0.22 per share and the exercise period is from 7 December 2006 to 7 December 2008.

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.

In addition to the share options in issue, at 31 December 2005 there also existed warrants which are detailed below.

Warrant	Number of warrants	Exercise price per share	Exercise period
B	12,614,020	£0.25**	Date of grant to 31/12/2007
C	43,595	£0.002**	Date of grant to 31/12/2008
E	183,070	$0.4675**	Date of grant to 31/12/2007
	12,840,685		

** All held by shareholders of the company.

At 31 December 2006 the 2,002,259 outstanding A warrants to buy shares at 20 pence per share and 183,070 D warrants to buy shares at US$0.35 per share, lapsed. During the year 424,065 C warrants were exercised.

Notes to the Financial Statements

31 December 2006

20. STATEMENT OF MOVEMENTS ON RESERVES

Group	Share premium account £	Share Option Reserve £	Profit and loss account £	Total £
At 1 January 2006 (as originally stated)	8,598,230	–	(3,127,897)	5,470,333
Prior period adjustment	–	13,966	(13,966)	–
At 1 January 2006 (as re-stated)	8,598,230	13,966	(3,141,863)	5,470,333
Loss for the year	–	–	(2,533,289)	(2,533,289)
New Issue	29,400	–	–	29,400
Currency translation difference on foreign currency net investments	–	–	26,209	26,209
Movement in year	–	173,529	–	173,529
At 31 December 2006	8,627,630	187,495	(5,648,943)	3,166,182

Company	Share premium account £	Share Option Reserve £	Profit and loss account £	Total £
At 1 January 2006 (as originally stated)	8,598,230	–	56,524	8,654,754
Prior period adjustment	–	13,966	–	13,966
At 1 January 2006 (as re-stated)	8,598,230	13,966	56,524	8,668,720
Profit for the year	–	–	151,647	151,647
New Issue	29,400	–	–	29,400
Movement in year	–	173,529	–	173,529
At 31 December 2006	8,627,630	187,495	208,171	9,023,296

21. RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

	2006 £	2005 (as re-stated) £
Loss for the financial year	(2,533,289)	(2,100,829)
Other recognised gains and losses relating to the year (net)	26,209	(5,400)
	(2,507,080)	(2,106,229)
New shares issued (net of expenses)	30,849	7,396,835
Movement in share option reserve (as restated)	173,529	13,966
Net (reduction) addition to shareholders' funds	(2,302,702)	5,304,572
Opening shareholders' funds	5,638,954	334,382
Closing shareholders' funds	3,336,252	5,638,954

22. RECONCILIATION OF OPERATING LOSS TO OPERATING CASH FLOWS

	2006 £	2005 £
Operating loss	(3,145,519)	(2,217,559)
Currency translation difference	26,209	(5,400)
Depreciation and amortisation	76,336	62,679
FRS20 share option charge	173,529	13,966
Increase in stocks	(48,339)	(24,187)
Increase in debtors	(127,019)	(93,719)
(Decrease)/increase in creditors	(88,443)	248,371
Net cash outflow from operating activities	(3,133,246)	(2,015,849)

Notes to the Financial Statements

31 December 2006

23. ANALYSIS OF CASH FLOWS

	2006 £	2005 £
Returns on investments and servicing of finance		
Interest received and similar income	205,898	61,970
Interest paid and similar charges	(69,225)	(12,621)
Net cash inflow	136,673	49,349
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(45,349)	(66,114)
Net cash outflow	(45,349)	(66,114)
Management of liquid resources		
Decrease/(increase) in short term deposits	2,750,000	(5,375,000)
Net cash inflow/(outflow)	2,750,000	(5,375,000)
Financing		
Issue of ordinary share capital (net of expenses)	30,849	7,396,835
Net cash inflow	30,849	7,396,835

24. OPERATING LEASE COMMITMENTS

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

	Land and buildings	
	2006 £	2005 £
Group		
Expiry date		
between two and five years	58,022	49,157
	58,022	49,157
Company		
Expiry date		
between two and five years	41,000	31,000
	41,000	31,000

Notice of AGM

CYAN HOLDINGS PLC

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Cyan Holdings plc (the "**Company**") for 2006 will be held at the offices of Dechert LLP, 160 Queen Victoria Street, London, EC4V 4QQ at 11 am on Monday, 30 April 2007 for the following purposes:

Ordinary Business

1. To receive and adopt the accounts of the Company for the financial year ended 31 December 2006 together with the directors' report and the auditors' report on those accounts.

2. To re-elect Professor Michael Hughes as a director of the Company.

3. To re-appoint Deloitte & Touche LLP as auditors to hold office from the conclusion of the annual general meeting to the conclusion of the next meeting at which the accounts are laid before the Company and to authorise the directors to fix their remuneration.

Special Business

To consider and, if thought fit, pass the following resolutions which will be proposed as to Resolution 4 as an ordinary resolution and as to Resolution 5 as a special resolution:

4. THAT, in substitution for any existing authority under section 80 of the Companies Act 1985 (the "**Act**") but without prejudice to the exercise of any such authority prior to the date hereof, the directors be and are authorised generally and unconditionally for the purposes of section 80 of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to a maximum aggregate nominal amount equal to £104,757 to such persons and at such times and on such terms as they think proper during the period expiring (unless previously revoked or varied by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

5. THAT in substitution for any existing power under section 95 of the Act, but without prejudice to the exercise of any such power prior to the date hereof, the directors be and are empowered pursuant to section 95(1) of the Act to allot equity securities (within the meaning of section 94 of the Act) wholly for cash pursuant to the authority conferred on the directors by resolution 5 contained in the notice of the Annual General Meeting of the Company of which this resolution forms part as if sub-section (1) of section 89 of the Act did not apply to such allotment provided that this power shall (unless previously revoked or varied by the Company in general meeting) expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired and save also that the power conferred by this resolution shall be limited to:

5.1 the allotment of equity securities in connection with an issue or offering in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interest of such holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems arising in connection with the laws of, or the requirements of any regulatory body or any stock exchange in, any territory; and

5.2 the allotment (otherwise than pursuant to sub-paragraph 5.1 above) of equity securities up to an aggregate nominal value not exceeding £17,006.

By order of the board
Andrew Lee ACA
29 March 2007

Registered office:
Buckingway Business Park
Swavesey
Cambridge
CB4 5UQ

Notes:

1. A member entitled to attend and vote at the Annual General Meeting may appoint a proxy to attend and, on a poll, to vote in his place and such proxy need not be a member of the Company. A form of proxy is enclosed.

Notice of AGM

2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified or office copy thereof must be deposited with Capita Registrars, Proxy Processing Centre, Telford Road, Bicester OX26 4LD. You may also deliver cards by hand to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the meeting. Completion and return of a form of proxy will not preclude a member from attending and voting in person.

3. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 6pm on 28 April 2007, or, in the event the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the aforesaid general meeting in respect of the number of shares registered in their name at the relevant time. Changes to entries in the register of members after 6pm on 28 April 2007, or, in the event the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4. In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

5. Copies of the register of directors' interests in shares of the Company and copies of all service agreements under which directors of the Company are employed by the Company or any subsidiaries will be available for inspection at the Company's registered office, during normal business hours on any weekday (Saturdays and public holidays excepted) from the date of this notice until the day of the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and during the meeting.

CYAN HOLDINGS PLC

ANNUAL GENERAL MEETING

Form of Proxy

I/We [name in full in block capitals] ....

of ....

being a member/members of Cyan Holdings plc (the "Company") hereby appoint the Chairman of the meeting or (see note 1 below)

.... as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 30 April 2007 at 11 a.m. at the offices of Dechert LLP, 160 Queen Victoria Street, London EC4V 4QQ and at any adjournment thereof.

Please indicate with an "X" in the appropriate box below how the proxy should vote and then sign in the space provided below. If no specific direction as to voting is given, the proxy may vote or abstain at his discretion.

Resolution	For	Against
1 To receive and adopt the financial statements for the period ended 31 December 2006		
2 To re-elect Professor Michael Hughes as a director		
3 To re-appoint Deloitte & Touche LLP as auditors to the Company		
4 To authorise the Directors to allot relevant securities pursuant to section 80 of the Companies Act 1985 in the manner contained in the notice of Annual General Meeting		
5 To disapply section 89(1) of the Companies Act 1985 in the manner contained in the notice of Annual General Meeting		

Dated 2007

Signature ....

Notes

1. If it is desired to appoint another person or persons as proxy the words "the Chairman of the Meeting or" should be deleted and the name of the proxy (who need not be a member of the Company) inserted into the appropriate space.If such words are not deleted and a proxy is named on this form the Chairman shall not be entitled to vote as proxy.Any alteration must be initialled.
2. To be valid, this form, together with the power of attorney or other written authority, if any, under which it is signed or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or written authority, must be lodged with the Registrars, Capita Registrars, Proxy Processing Centre, Telford Road, Bicester OX26 4LD. You may also deliver cards by hands to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the meeting.
3. A corporation must execute this form either under its common seal or under the hand of two directors or one director and the secretary or under the hand of an officer or attorney duly authorised in writing.
4. In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated and the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.For this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
5. Deposit of a completed form of proxy will not preclude a member from attending the Annual General Meeting and voting in person.
6. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, to be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the number of votes they may cast) members must be entered on the register of members of the Company by 6 p.m. on 28 April 2007. If the meeting is adjourned, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the adjourned meeting is 48 hours prior to the time of any adjourned meeting.

First Fold

Third Fold (Tuck-in)

BUSINESS REPLY SERVICE
License No. RRHB-RSXJ-GKCY

1

Proxy Processing Centre
Telford Road
BICESTER
OX26 4LD

Second Fold

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Collins Stewart Limited
88 Wood Street
London EC2V 7QR

Auditors and Reporting Accountants
Deloitte & Touche LLP
City House
126-130 Hills Road
Cambridge CB2 1RY

Solicitors to the Company
Dechert LLP
160 Queen Victoria Street
London EC4V 4QQ

Financial Public Relations Advisers to the Company
Abchurch Communications
100 Cannon Street
London EC4N 6EU

Registrars
Capita Registrars
The Registry
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