Interim Report and Financial Statements 2006

cyan holdings plc

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Cyan Holdings plc Interim Statement

The announcement at the end of August that our new 16 bit eCOG1X microcontroller has been released into its production stage marks a sea change in the evolution of the Company. For the first time we will be able to supply customers with a full product range for 16 bit solutions and this has already been welcomed by existing customers; even more importantly, it should have a positive impact with those potential customers who wanted a larger and more flexible product range available before committing to using Cyan chips. We can now deliver across a significantly broader range of performance, power consumption and price points. This increase in our product offerings, which now totals 32 versions, enables us to compete in many more market areas, including motor control and instrumentation, and we anticipate a significant contribution to revenues in 2007 resulting from design wins, opportunities and sales within this extended market.

Not only are we confident that the launch of the eCOG1X will be very positive for growth, we are seeing the benefits of being a PLC with greater access to larger, well established companies. While we cannot be specific as to the identity of these companies, because of issues of client confidentiality, we can disclose that we are now in active dialogue with five of the World's largest and best known consumer electronic companies of which four are based in Asia and the other is in the United States.

eCOG1X will be available to customers in production quantities in early 2007 thereby allowing deliveries against normal lead times during the course of the year. Pre-production chips and development kits will be available to customers by the end of 2006 to support our existing eCOG1X design wins and opportunities for the new product. Based on our current conversations with customers, we feel that meaningful sales of eCOG1X could commence in the third quarter 2007, though second quarter sales are not out of the question.

We currently have 14 design wins for eCOG1X which, when in full production, are expected to generate 250,000 units of sales per annum. However, more importantly, we are also in discussion (in some cases late stage discussions) on a number of large opportunities from which we are confident of achieving important design wins. To date we have identified 18 opportunities for more than 50,000 units per annum that amount in total to 3.5 million units per annum when in full production. One of these opportunities is with a 'Tier One' global player, with a market capitalisation well in excess of US$40 billion. The product for which they wish to use the eCOG1X is already in volume production using a different microcontroller plus other chips with per annum unit sales of over 1 million units. Substituting the Cyan product would give the customer annual savings of almost $20 million – a compelling reason to change. This project is already in the late stages of development with working prototypes and software and is a drop in replacement for the current solution. These cost savings could well open new market opportunities for Cyan's customer generating further high volume sales for Cyan.

eCOG1K addresses real market needs in the shape of lower cost, less complex applications, particularly those needing ultra low power characteristics and continues to find design wins and opportunities for its unique features. The eCOG1K product family will see further additions in the future and these R&D programs have commenced. We have now sold product to twelve separate companies, one of which is high volume, although most of our early stage customers were in lower volumes than recent design wins and opportunities. Design wins for the eCOG1K represent about 1.7 million units per annum when all are in full production and opportunities represent about 13 million units per annum.

The whole product range is supported by the unique CyanIDE software development environment which is rapidly growing into an extremely powerful development engineering support tool. To date Cyan has released major new versions of CyanIDE, with enhanced features and functionality about every 6 months.

During the period the Company has further developed and enhanced the quality of its sales network by signing up new distributors in both Germany and Korea. Both distributors were impressed with the Cyan product range and CyanIDE development tools and are well positioned to introduce the Company to significant new accounts in their respective territories. We are currently in early stage talks with a potential distributor for the Japanese market and have started the process of broadening our representation in Europe, which is still a significant user of microcontrollers.

Cyan has put everything in place, ready for launch with a significant customer in China using the eCOG1K. This order represented a large part of our projected 2006 and 2007 turnover at the time of flotation. The balance of our initial 100,000 unit order was shipped in Q3 and we await the rollout of the project in China. The delays are not of our own making, nor those of our customer, but rather due to government delay in the rollout of the project, which had initially been projected for Jan 05. All of our enquiries indicate that the delay is administrative and that all back office IT systems are complete and functioning. Our customer is already an established supplier to the Chinese market with a reputed 20% market share and has after sales service and support across the country and knows the Chinese ePOS market very well. They are also very successful outside China having shipped over 1 million units to brand names in Europe to date. (This is with an earlier generation product which does not use a Cyan chip). Our customer's projections for the Chinese market exceed 50 million units by 2010 and they expect to be the market leader, to which end they have already invested very heavily in products, production tooling and capacity.

Turnover for the period was £60,000. Costs have been kept tightly under control during the period and the Company has earned interest of £102,000 from investments in treasury deposits. Our six months' operating loss and our cash balance remain in line with expectations at £1,400,000 and £4,298,000 respectively. The Company expects to maintain its steady progress during the second half of 2006. We look forward to exploiting the potential of the new product range over the course of the final quarter of 2006 and beyond.

Mike Hughes	**Dr Paul Johnson**
Chairman	Chief Executive Officer

Consolidated Profit and Loss Account

Results for the six months ended 30 June 2006

	Note	Six months ended 30 June 2006 unaudited £	Six months ended 30 June 2005 unaudited As restated – see note 7 £	Year ended 31 December 2005 audited As restated – see note 7 £
Turnover		60,458	20,453	29,899
Cost of sales		(48,874)	(2,837)	(4,966)
Gross profit		11,584	17,616	24,933
Administrative expenses				
Share option charges		(84,286)	(168)	(13,673)
Other		(1,327,312)	(1,019,712)	(2,228,526)
		(1,411,598)	(1,019,880)	(2,242,199)
Operating loss		(1,400,014)	(1,002,264)	(2,217,266)
Interest receivable and similar income		107,180	20,458	61,970
Interest payable and similar charges		(41,347)	(3,608)	(12,621)
Loss on ordinary activities before taxation		(1,334,181)	(985,414)	(2,167,917)
Tax on loss on ordinary activities		–	–	67,381
Loss for the financial period		(1,334,181)	(985,414)	(2,100,536)
Loss per share – basic and diluted (pence)	2	(1.6)	(2.0)	(3.8)

All activities derive from continuing operations.

Consolidated Statement of Total Recognised Gains and Losses

Results for the six months ended 30 June 2006

	Six months ended 30 June 2006 unaudited £	Six months ended 30 June 2005 unaudited As restated – see note 6 £	Year ended 31 December 2005 audited As restated – see note 6 £
Loss for the financial period	(1,334,181)	(985,414)	(2,100,536)
Currency translation difference on foreign currency net investments	19,027	–	(5,400)
Total recognised gains and losses relating to the period	(1,315,154)	(985,414)	(2,105,936)

In the six months ended 30 June 2006, the company was obliged to make a prior year adjustment (as explained in note 7) amounting to £13,673 against the result for the year ended 31 December 2005 as a consequence of a change in accounting policy.

Consolidated Balance Sheet

At 30 June 2006

	Note	As at 30 June 2006 unaudited £	As at 30 June 2005 unaudited As restated – see note 7 £	As at 31 December 2005 audited As restated – see note 7 £
FIXED ASSETS				
Intangible assets		2,000	6,000	4,000
Tangible assets		148,044	176,527	163,236
		150,044	182,527	167,236
CURRENT ASSETS				
Stocks		127,939	36,563	59,583
Debtors		78,525	101,903	182,560
Current investments		4,030,000	1,090,000	5,375,000
Cash at bank and in hand		267,870	153,589	192,680
		4,504,334	1,382,055	5,809,823
CREDITORS: amounts falling due within one year		(230,451)	(308,902)	(338,105)
NET CURRENT ASSETS		4,273,883	1,073,153	5,471,718
TOTAL ASSETS LESS CURRENT LIABILITIES, BEING NET ASSETS		4,423,927	1,255,680	5,638,954
CAPITAL AND RESERVES				
Called up share capital	3	169,762	109,315	168,621
Share premium account	3	8,612,930	3,126,739	8,598,230
Other reserve – shares for issue		–	40,506	–
Profit and loss account		(4,456,724)	(2,021,048)	(3,141,570)
Share option reserve		97,959	168	13,673
EQUITY SHAREHOLDERS' FUNDS	6	4,423,927	1,255,680	5,638,954

Consolidated Cash Flow Statement

Results for the six months ended 30 June 2006

	Note	Six months ended 30 June 2006 unaudited £	Six months ended 30 June 2005 unaudited £	Year ended 31 December 2005 audited £
Net cash outflow from operations	4	(1,331,873)	(873,774)	(2,015,849)
Returns on investments and servicing of finance				
Interest received and similar income		107,180	20,458	61,970
Interest paid and similar charges		(41,347)	(3,608)	(12,621)
Net cash inflow from returns on investments and servicing of finance		65,833	16,850	49,349
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(19,611)	(46,590)	(66,114)
Net cash outflow from capital expenditure and financial investment		(19,611)	(46,590)	(66,114)
Net cash outflow before management of liquid resources and financing		(1,285,651)	(903,514)	(2,032,614)
Management of liquid resources				
Decrease/(increase) in short term deposits		1,345,000	(1,090,000)	(5,375,000)
Net cash inflow/(outflow) from management of liquid resources		1,345,000	(1,090,000)	(5,375,000)
Financing				
Issue of ordinary share capital (net of issue costs)		15,841	1,943,644	7,396,835
Net cash inflow from financing		15,841	1,943,644	7,396,835
Increase/(decrease) in cash	5	75,190	(49,870)	(10,779)

Notes to the Financial Information

1. Basis of preparation

The financial information has been prepared in accordance with the policies set out in the statutory financial statements of Cyan Holdings plc for the year ended 31 December 2005 with the exception of accounting for share options. FRS20 " Share Based Payments" is applicable for the first time and has a prior year impact which is detailed in note 7.

These interim financial statements do not constitute statutory financial statements within the meaning of Section 240 of the Companies Act 1985. Results for the six month periods ended 30 June 2006 and 30 June 2005 have not been audited. The results for the year ended 31 December 2005 have been extracted from the statutory financial statements of Cyan Holdings plc and restated where appropriate as explained in note 7. The financial statements for the year ended 31 December 2005 have been filed with the Registrar of Companies and upon which the auditors' report was not qualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

2. Loss per share

Basic and diluted loss per ordinary share has been calculated by dividing the loss after taxation for the periods as shown in the table below.

	Six months ended 30 June 2006	Six months ended 30 June 2005 As restated – see note 6	Year ended 31 December 2005 As restated – see note 6
Losses (£)	(1,334,181)	(985,414)	(2,100,536)
Weighted average number of shares	84,670,828	48,665,598	54,823,213

FRS 22 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out of the money options. Since it seems inappropriate to assume that option holders would act irrationally and there are no other diluting future share issues, diluted EPS equals basic EPS.

3. Share capital and share premium account

Share Capital	As at 30 June 2006 £	As at 30 June 2005 £	As at 31 December 2005 £
Authorised:			
150,000,000 (June 2005: 100,000,000, December 2005: 150,000,000) ordinary shares of £0.002 each	300,000	200,000	300,000
Called up, allotted and fully paid			
84,881,140 (June 2005: 54,657,675, December 2005: 84,310,515) ordinary shares of £0.002 each	169,762	109,315	168,621

Share Premium Account	As at 30 June 2006 £	As at 30 June 2005 £	As at 31 December 2005 £
At start of period	8,598,230	1,121,634	1,121,634
Premium on share issues	14,700	2,005,105	7,476,596
At end of period	8,612,930	3,126,739	8,598,230

4. Reconciliation of operating loss to operating cash outflow

	Six months ended 30 June 2006 £	Six months ended 30 June 2005 As restated – see note 7 £	Year ended 31 December 2005 As restated – see note 7 £
Operating loss	(1,400,014)	(1,002,264)	(2,217,266)
Currency translation difference	19,027	–	(5,400)
Depreciation and amortisation	36,803	27,864	62,679
FRS 20 share option charge	84,286	168	13,673
Increase in stocks	(68,356)	(1,167)	(24,187)
Decrease/(increase) in debtors	104,035	(42,543)	(93,719)
(Decrease)/increase in creditors	(107,654)	144,168	248,371
	(1,331,873)	(873,774)	(2,015,849)

5. Analysis and reconciliation of net funds

	31 December 2005 £	Cash flow £	30 June 2006 £
Cash at bank and in hand	192,680	75,190	267,870
Current asset investments	5,375,000	(1,345,000)	4,030,000
Net funds	5,567,680	(1,269,810)	4,297,870

6. Reconciliation of movements in group shareholders' funds

	Six months ended 30 June 2006 £	Six months ended 30 June 2005 £	Year ended 31 December 2005 £
Loss for the financial period (as restated, see note 7)	(1,334,181)	(985,414)	(2,100,536)
Other recognised gains and losses	19,027	–	(5,400)
	(1,315,154)	(985,414)	(2,105,936)
New shares issued (net of expenses)	15,841	2,033,238	7,396,835
Movement in share option reserve (as restated, see note 7)	84,286	(126,526)	13,673
Net (decrease)/increase in shareholders' funds	(1,215,027)	921,298	5,304,572
Opening shareholders' funds	5,638,954	334,382	334,382
Closing shareholders' funds	4,423,927	1,255,680	5,638,954

7. Prior year restatement – Implementation of FRS 20 "Share-based payment"

Accounting policy change

The group has applied the requirements of FRS 20 Share-based payments. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The group issues equity-settled share-based payments to certain employees and directors. Equity-settled share-based payments are measured at fair value 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.

Fair value is measured by use of a 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.

7. Prior year restatement – Implementation of FRS 20 "Share-based payment" (continued)

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

Impact of restatement

The impact of implementing FRS 20 "Share-based payment" has had the following impact on the financial statements.

PROFIT AND LOSS ACCOUNT

	Six months ended 30 June 2005 £	Year ended 31 December 2005 £
Administrative expenses as previously stated	1,019,712	2,228,526
FRS 20 "Share-based payment" charge	168	13,673
Administrative expenses as restated	1,019,880	2,242,199
Loss per share – basic and diluted (pence) as previously stated	2.0	3.8
FRS 20 "Share-based payment" charge	–	–
Loss per share – basic and diluted (pence) as restated	2.0	3.8

BALANCE SHEET

	As at 30 June 2005 £	As at 31 December 2005 £
Profit and loss account as previously stated	(2,020,880)	(3,127,897)
FRS 20 "Share-based payment" charge	(168)	(13,673)
Profit and loss account as restated	(2,021,048)	(3,141,570)
Share option reserve as previously stated	–	–
FRS 20 "Share-based payment" charge	168	13,673
Share option reserve as restated	168	13,673

The impact on the current period has been to increase administrative expenses by £84,286 and to increase the share option reserve by £84,286.

Independent Review Report to Cyan Holdings plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2006 which comprises the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and related notes 1 to 7. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company, in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are also responsible for ensuring that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

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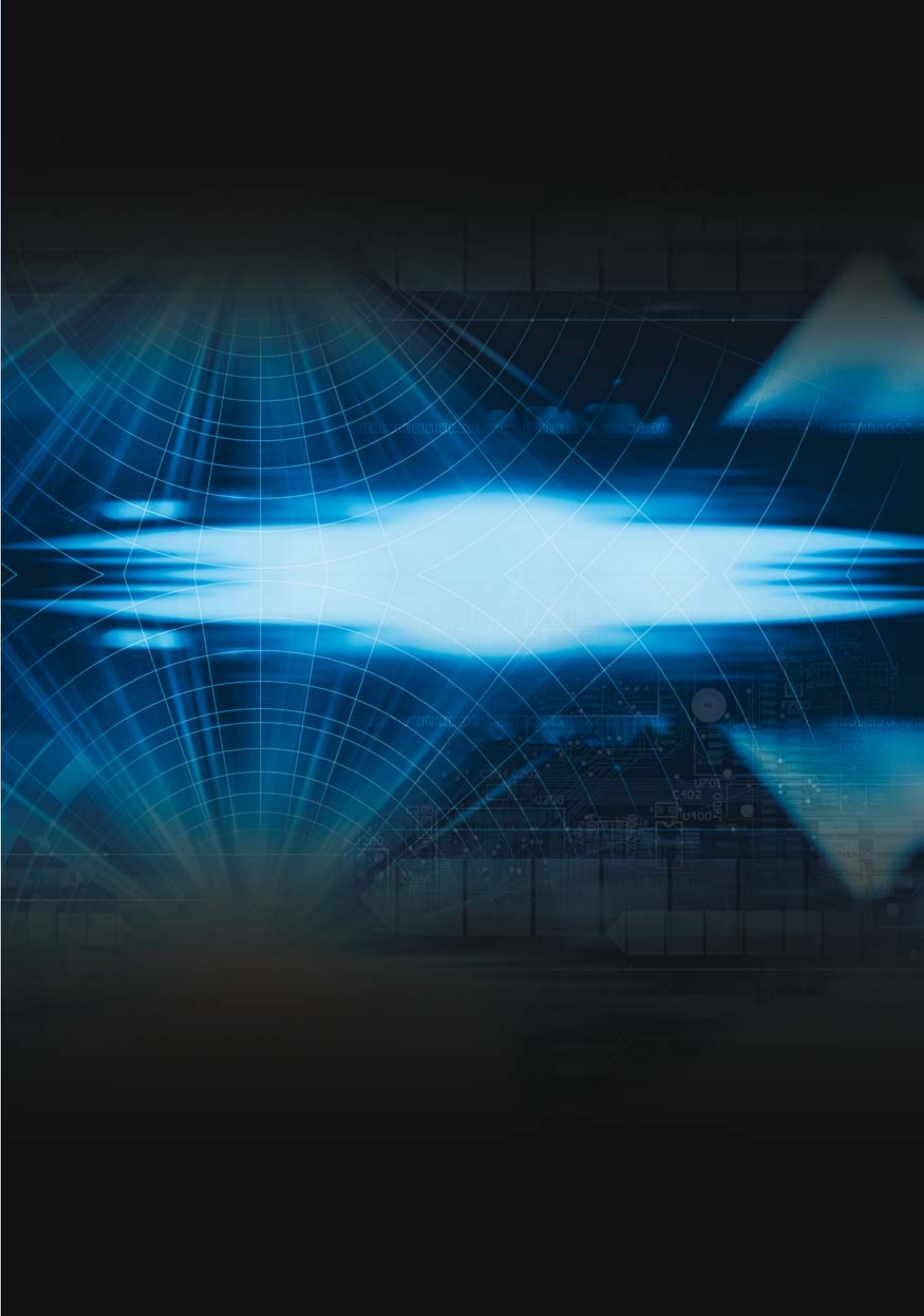

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