

Interim Report  
and Financial Statements 2008



**cyan holdings plc**



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# Cyan Holdings plc Interim Statement

It is 18 months since I joined Cyan and we are now 15 months into the 18 month program that we outlined to implement and deploy our new strategy. I would like to thank the entire Cyan team for the hard work and dedication that they have put into the transformation of the company. We remain on course to achieve the targets that we have set ourselves and the first half of 2008 has seen Cyan successfully start to deploy key elements of this strategy.

The first half of 2008 has seen the introduction of two completely new products which have focused and accelerated Cyan's penetration into three new markets that Cyan has identified and which each have the potential to take Cyan into sustainable profitability in 2009.

The combination of all three markets presents Cyan with a visible revenue opportunity both from multiple prospects and customers who have already engaged with Cyan that is expected to comfortably meet the higher end of revenue expectations set for the new strategy. The challenge for Cyan has now shifted from developing attractive and competitively priced products to how to prioritise between prospective customers and markets to grow Cyan's revenues and achieve sustainable profitability.

Cyan's restructuring set out to reduce the cost of our products, develop a new entry level chip for the Chinese market, to extend the CyanIDE software tool to system level and then to define design and build production ready modules that embodied the Cyan value proposition of ease of use coupled with reduced cost and power. Over the year we have:

- built an operations team that has halved the manufacturing cost of our products:
- ported CyanIDE to the industry standard Eclipse environment:
- developed a library of drivers and dramatically extended CyanIDE's capability to program the multiple devices required for a complete system:
- developed a new ultra low cost chip that takes state of the art 16-bit flash MCU's below the \$2 threshold:
- developed a new 16-bit MCU core which we expect to demonstrate is amongst the best 16-bit cores available from any vendor:
- Cyan has developed Application Software for self configuring ad hoc networks and embedded Web Servers that we believe are as good or better as any comparable products on the market, yet these run on Cyan low cost 16-bit MCU's and not the expensive 32-bit MCU's commonly used.

We have then taken all these elements and manufactured a number of development and production ready modules that embody all these features, and delivered these to the market in an easy to use format, even batteries included, to provide an exceptional 'out of the box' experience.

Cyan's go-to-market strategy is now based around the *CY-Solved* product brand that delivers the cost and power saving features of the eCOG chip families in a pre-packaged module, together with the ease of use of the CyanIDE development tool, all enhanced by application software that does the tricky bits. Uniquely these module reference designs are easily extended via the CyanIDE tool to add functionality specified by the customer. The modules are designed to simply plug into the customers system and are marketed as cheaper than the customer could build themselves. Our sourcing of components and manufacturing partners in China, coupled with the reduced component count enabled by the eCOG MCU makes this claim realistic, for all but the highest production volumes, for many customers not currently using Cyan. For the remainder, Cyan modules enable exceptionally fast market entry and our design schematics are available under license to incorporate or extend our module to become a production product. In China every customer wants something different and our engineering teams in Hong Kong and our new office in Shenzhen undertake the work (using a Chinese Language version of CyanIDE) offering an unrivalled ability to modify functionality and/or reduce cost.

Cyan's *RF-Solved* product was introduced early in Q1 and took Cyan straight into the AMR/AMI (Automatic Meter Reading/Advanced Metering Infrastructure) markets and in just 6 months Cyan has engaged with prospective clients in all three Global geographies (Asia, EMEA, USA). Modifications of *RF-Solved* by the Cyan Asia team produced a gas meter design that is now in volume production for South West Computer and is either accepted, in trials, or under evaluation at a number of other prospective customers. *RF-Solved* is currently in field trials with multiple prospective customers in EMEA in both AMR and industrial wireless control (IWC) applications. At a major Chinese metering show in October, Cyan will be demonstrating new application software that makes robust self-configuring networking software available to *RF-Solved* customers combined with a new RF-Device from Micrel Inc that has been co-developed with Cyan specifically for the Chinese electricity metering market.

At the end of Q2 Cyan launched *USB/Ethernet-Solved* incorporating easy to use drivers in what may prove to be the industry's lowest cost USB & Ethernet module. Cyan's eCOG MCU enables this price point to be reached without compromise on functionality with both USB & Ethernet supported concurrently and, unusually for a 16-bit MCU, Cyan incorporates an embedded web server. Prototypes of the USB drivers have successfully completed field trials with a Korean customer and production orders are forecast for Q4.

In Q4 Cyan will launch a third new family of Gateway products. These combine both RF-*Solved* and USB/Ethernet-*Solved* to produce what Cyan believe will prove to be the company's main driver of revenue growth for a number of years. A Gateway is the interface between any radio network and the entity controlling or monitoring the network. In each of the Industrial Control, Automated Metering and Home Automation markets, a Gateway is required to concentrate pre-process and present the information carried over that network. Cyan's customers and prospective customers tell us that we have a unique Gateway solution that offers prices and features not previously available in the marketplace.

Cyan is currently working on three Gateway family members each for a different radio protocol and radio partner. At Metering Europe, a major show in Amsterdam this week, Cyan and Radiocrafts will be demonstrating the first complete Wireless-M-Bus AMR solution available in Europe, which incorporates a Cyan Gateway. Cyan and Radiocrafts are already engaged with several prospective customers for this solution in Europe. Cyan will announce further Gateway family members and radio partners in Q4.

RF-*Solved* and the Gateway products provide Cyan with the products that will accelerate penetration into the AMR/AMI and IWC markets. Our third area of focus for these products is Asset Tracking, for which an early stage customer was announced in May, but the level of activity in AMR/AMI and the market reception of the Gateway products currently limits the resource available to Cyan to develop new products for the Asset Tracking market, and the rate of penetration is for the immediate future primarily determined by end customers own development resource.

The recent placing, against the background of very challenging market conditions, was completed raising £2.8m on 3 September 2008 for the Company and I would like to thank Cenkos Securities for their management of the placing and the existing and new investors for their support. The Cyan team in the UK and China is excited and highly motivated. For the first time Cyan has the products that customers want at attractive prices and we now have the funds to ensure that we can modify and manufacture to our customers' exact requirements. Whilst it is still difficult to accurately quantify how quickly our growing customer list can deploy their new Cyan powered products into their end markets, based on visible customers and prospective customers, the Board remains confident that in the 15 months to the end of 2009, Cyan will see accelerating revenue growth and a transition into sustainable profitability.

Kenn Lamb  
Chief Executive Officer  
24 September 2008

# Independent Review Report to Cyan Holdings plc

## **Introduction**

We have been engaged by the company to review the set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises the consolidated income statement, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 5. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements 2410 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The set of financial statements included in this half-yearly financial report have been prepared in accordance with the accounting policies the group intends to use in preparing its next annual financial statements.

## **Our responsibility**

Our responsibility is to express to the Company a conclusion on the set of financial statements in the half-yearly financial report based on our review.

## **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we

would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 is prepared, in all material respects, in accordance with the AIM Rules of the London Stock Exchange.

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditor  
Cambridge, United Kingdom  
23 September 2008

# Consolidated Income Statement

Six months ended 30 June 2008

	Notes	Unaudited six months ended 30 June 2008 £	Unaudited six months ended 30 June 2007 £	Year ended 31 December 2007 £
Revenue		52,750	22,496	32,596
Cost of sales		(30,217)	(18,603)	(26,934)
<b>Gross Profit</b>		<b>22,533</b>	<b>3,893</b>	<b>5,662</b>
Administrative expenses				
Share based compensation		(26,189)	(5,757)	(21,903)
Other		(2,524,820)	(1,831,600)	(4,776,059)
		(2,551,009)	(1,837,357)	(4,797,962)
<b>Operating loss</b>		<b>(2,528,476)</b>	<b>(1,833,464)</b>	<b>(4,792,300)</b>
Investment revenues		139,239	52,771	144,795
Finance costs		(51,340)	(53,565)	(121)
<b>Loss on ordinary activities before taxation</b>		<b>(2,440,577)</b>	<b>(1,834,258)</b>	<b>(4,647,626)</b>
Tax on loss on ordinary activities		176,789	–	360,000
<b>Loss for the period from continuing operations</b>		<b>(2,263,788)</b>	<b>(1,834,258)</b>	<b>(4,287,626)</b>
<b>Loss per share (pence)</b>				
Basic and diluted	3	(1.6)	(2.1)	(4.0)



# Consolidated Balance Sheet

At 30 June 2008

	Unaudited 30 June 2008 £	Unaudited 30 June 2007 £	31 December 2007 £
<b>Non current assets</b>			
Intangible assets	14,396	43,190	28,792
Property, plant and equipment	109,103	92,275	96,680
	123,499	135,465	125,472
<b>Current Assets</b>			
Inventories	916,274	146,677	180,240
Trade and other receivables	318,195	506,744	503,225
Cash and cash equivalents	1,418,143	1,099,726	4,079,534
	2,652,612	1,753,147	4,762,999
<b>Total assets</b>	2,776,111	1,888,612	4,888,471
<b>Current liabilities</b>	(859,298)	(271,142)	(704,223)
<b>Net current assets</b>	1,793,314	1,482,005	4,058,776
<b>Net assets</b>	1,916,813	1,617,470	4,184,248
<b>Equity</b>			
Share capital	299,653	171,853	279,252
Share premium account	14,102,640	8,719,997	13,600,291
Own shares held	(522,750)	–	–
Retained loss	(12,198,317)	(7,427,250)	(9,904,693)
Share option reserves	235,587	152,870	209,398
<b>Total Equity</b>	1,916,813	1,617,470	4,184,248

# Consolidated Statement of Recognised Income and Expense

Six months ended 30 June 2008

	Unaudited six months ended 30 June 2008 £	Unaudited six months ended 30 June 2007 £	Year ended 31 December 2007 £
Exchange differences on translating foreign operations recognised directly in equity	(29,386)	15,569	31,876
Net income (expense) recognised directly in equity	(29,386)	15,569	31,876
Loss for period	(2,263,788)	(1,834,258)	(4,287,626)
Total recognised income and expense for the period attributable to equity holders of the parent	(2,293,174)	(1,818,689)	(4,255,750)

# Consolidated Cash Flow Statement

Six months ended 30 June 2008

	Notes	Unaudited six months ended 30 June 2008 £	Unaudited six months ended 30 June 2007 £	Year ended 31 December 2007 £
Net cash outflow from operating activities	4	(2,706,149)	(1,773,779)	(3,894,358)
Investing activities	5	44,758	(41,446)	71,369
Financing	5	–	94,150	5,081,722
Net (decrease)/increase in cash and cash equivalents		(2,661,391)	(1,721,075)	1,258,733
Cash and cash equivalents at beginning of period		4,079,534	2,820,801	2,820,801
Cash and cash equivalents at end of period		1,418,143	1,099,726	4,079,534

# Notes to Accounts

Six months ended 30 June 2008

## 1. Basis of preparation

The interim financial information has been prepared in accordance with the IFRS accounting policies used in the statutory financial statements for the year ended 31 December 2007.

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 ending 30 June 2008 and 30 June 2007 have not been audited. The result for the year ended 31 December 2007 have been extracted from the statutory financial statements of Cyan Holdings plc.

Statutory financial statements for the year ended 31 December 2007 are available on the Company's website [www.cyantechnology.com](http://www.cyantechnology.com) and have been filed with the Registrar of Companies. The Company's auditors issued a report on those financial statements that was unqualified and did not contain a statement under section 237(2) or section 237(3) of the Companies Act 1985; however the auditor's report was modified to emphasise the uncertainty around the company's ability to continue as a going concern.

## 2. Post balance sheet event

Since the end of the period, the Group has raised additional equity funding of £2.8 million through a placing of new ordinary shares. The placing was authorised by existing shareholders on 3 September 2008.

## 3. 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.

	Unaudited six months ended 30 June 2008 £	Unaudited six months ended 30 June 2007 £	Year ended 31 December 2007 £
Losses (£)	2,263,788	1,834,258	4,287,626
Weighted average number of shares	139,626,315	85,398,648	107,962,482

IAS33 "Earnings per share" 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.

**4. Reconciliation of operating loss to operating cash flows**

	Unaudited six months ended 30 June 2008 £	Unaudited six months ended 30 June 2007 £	Year ended 31 December 2007 £
Operating loss	(2,528,476)	(1,833,464)	(4,792,300)
Currency translation difference	(29,836)	15,569	33,004
Depreciation and amortisation	45,114	41,436	83,076
Share based payment expense	26,189	5,757	21,903
Income tax credit	176,789	–	360,000
Increase in inventories	(736,034)	(38,755)	(72,318)
Decrease/(increase) in trade and other receivables	185,030	14,198	17,716
Increase/(decrease) in payables	155,075	21,480	454,561
Net cash outflow from operating activities	(2,706,149)	(1,773,779)	(3,894,358)

**5. Analysis of cash flows**

	Unaudited six months ended 30 June 2008 £	Unaudited six months ended 30 June 2007 £	Year ended 31 December 2007 £
Investing activities			
Interest receivable and similar income	139,239	52,771	144,795
Interest payable and similar charges	(51,340)	(53,565)	(121)
Purchase of property, plant and equipment	(43,141)	(40,652)	(73,426)
Net cash (outflow)/inflow	44,758	(41,446)	71,248
Financing activities			
Proceeds on issue of shares	–	–	5,081,843
Exercise of share options	–	94,150	–
Net cash inflow	–	94,150	5,081,843



# Officers and Professional Advisers

## Nominated Adviser and Broker

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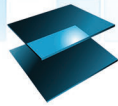
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[www.cyantechology.com](http://www.cyantechology.com)