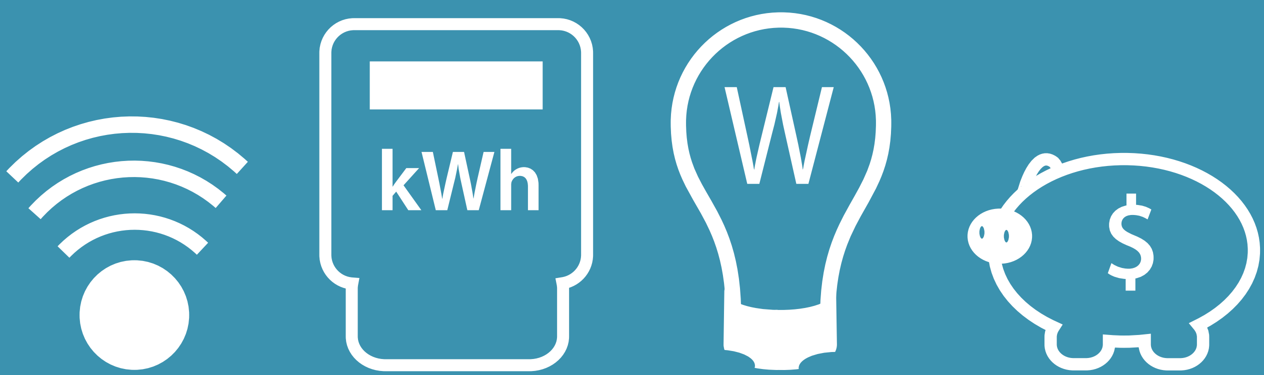
Cyan Technology

Smart energy solutions for metering and lighting

Cyan Holdings plc
Annual Report and Accounts
for the year ended December 2011



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Overview

Cyan provides smart energy solutions for the utility and lighting markets.

Cyan's core technology is a platform for the rapid and cost effective deployment of smart grid metering and energy efficient smart lighting. This includes CyNet™, a wireless mesh networking protocol for scalable and secure communication with remote units as well as Cyan's enterprise software for full end-to-end system integration.

CyLec® is Cyan's smart metering solution for energy utilities. It provides a robust, scalable and integrated platform that enables utilities to transform existing power grid infrastructure into the smart grid. Using CyLec, utilities can rapidly deploy an interoperable Advanced Metering Infrastructure (AMI) solution that provides an automated, two-way communication interface between the consumer and the smart grid.

CyLux® is Cyan's energy efficient smart lighting solution. It enables significant power savings by optimising the way in which public lighting is managed. CyLux is compatible with all the latest lighting technologies including HPS, HID and LED. The CyLux® web portal provides a central monitoring and control interface that scales to city and state wide deployments.

Together with Cyan's System Integrator partners, Cyan provides first class support, managed services and Software as a Service (SaaS) to assist in the planning and integration of its solutions.

Contents

Key Achievements

- Strategic Partnership with China's largest street lighting manufacturer
- Strategic agreement with major Indian supplier of IT services to power utilities
- Substantial follow on orders from Chinese public lighting authority for tens of thousands of units
- Equity fund raising during the year of £2.0M net to postion for substantial growth opportunities
- Design wins for CyLec® product in several major Indian electricity meter suppliers
- Successful metering trial and demonstration of 150 plus meter installations in Noida surburb of Delhi
- Demonstration of live metering installation at International Smart Energy Conference in Delhi

Financial Highlights

- Substantial increase in revenue during 2011 to £455,591 (2010 139,047)
- Operating loss for the year of £3,499,499 (2010: £2,954,055)
- Cash balance at the end of year £364,590 (2010: £1,484,437)

Post Period End Highlights

- Equity fund raising of a further £1.5m net in January 2012, with warrants attached giving potential further investment of £2.4m by July 2012
- Five Indian meter suppliers submit CyLec based meters for TNEB project for 1.5M units, the positive outcome of which would be transformational for Cyan
- John Cronin appointed as non-executive director to Cyan Board and will take over from John Read as executive chairman at the Company's AGM in May

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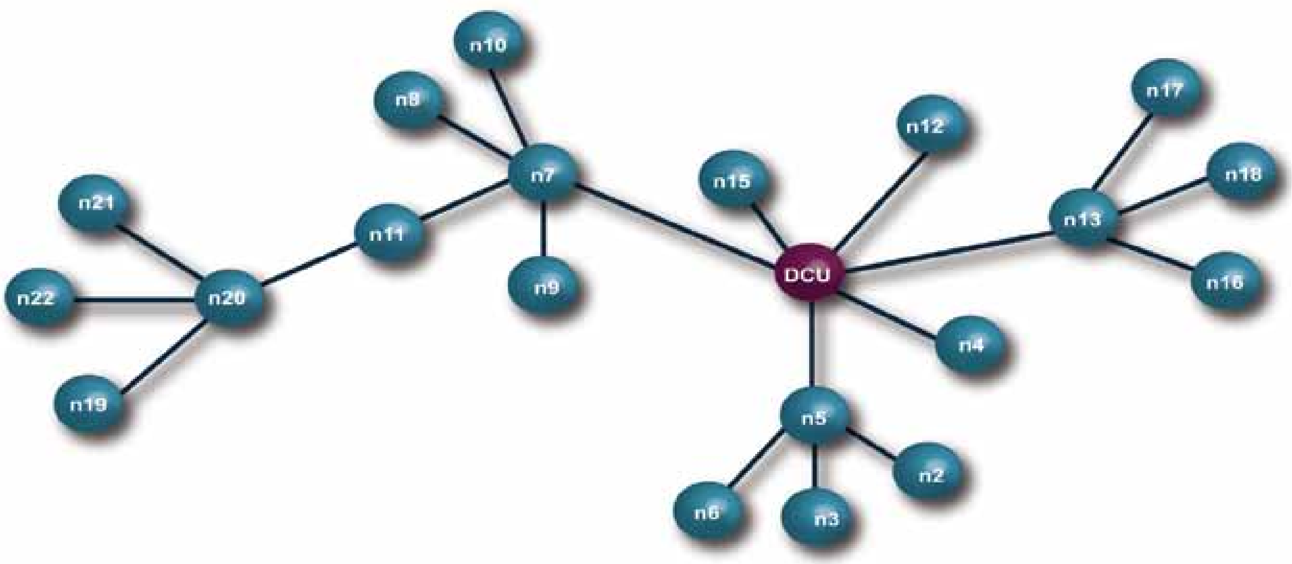
CyNet®

From its office in Cambridge, the heart of the high-technology centre Silicon Fen, Cyan's engineers have spent many man years developing CyNet™. CyNet is a robust mesh networking protocol optimised for each application, smart metering and energy efficient smart lighting. The network self-forms and self-heals making it a resilient, easy to install solution for real world deployments.

CyNet is implemented on Cyan's Radio Frequency (RF) modules which support the common sub 1GHz frequency bands for use worldwide. A node is fitted to each end device which enables them to communicate. Cyan's Data Concentrator Units (DCU) can also be fitted with an RF9module allowing connection to a data management system via GPRS or Internet.



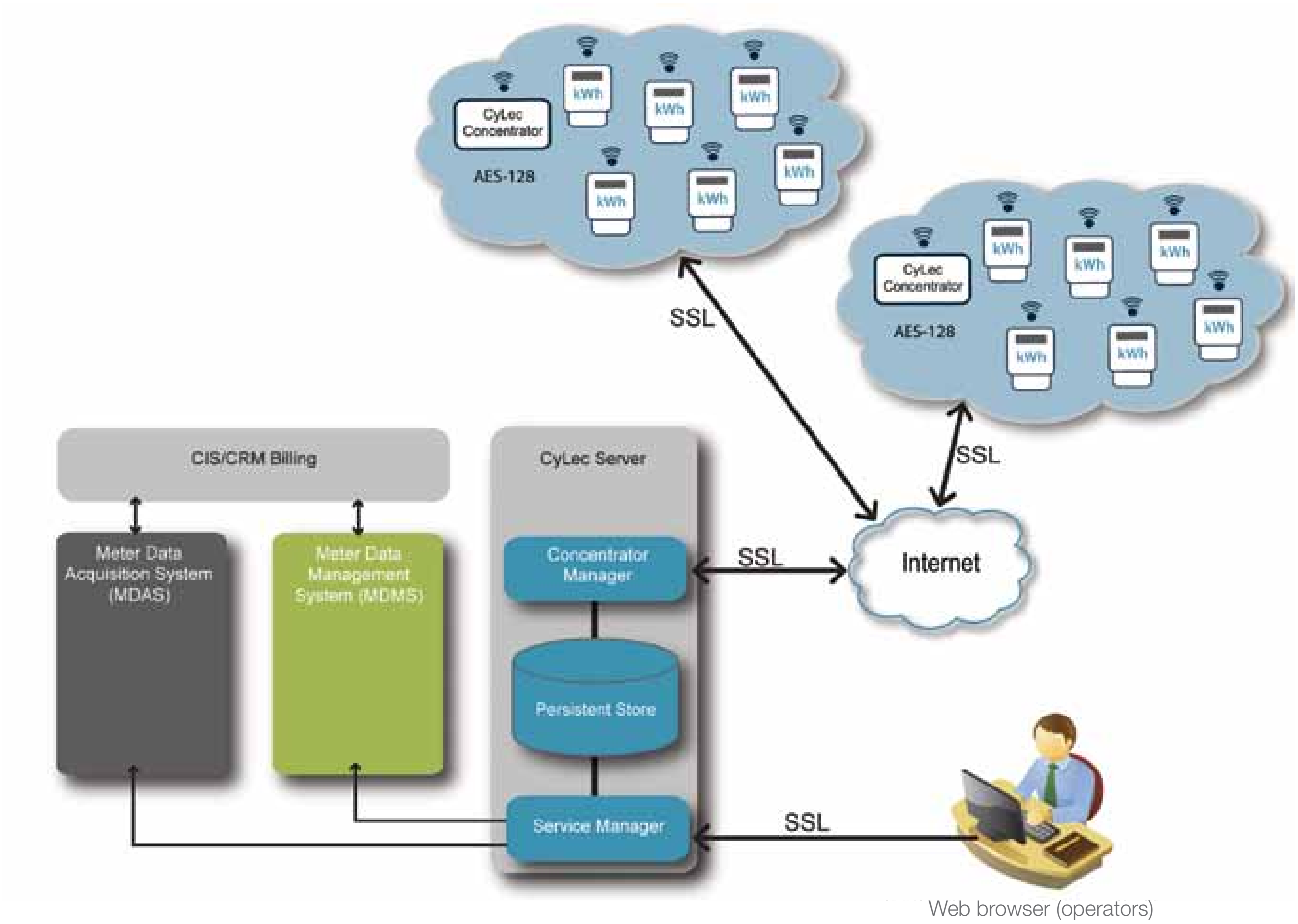
CyNet™ wireless mesh networking protocol

CyLec®

CyLec is an integrated solution for Advanced Metering Infrastructure (AMI) deployments. It is dedicated to electricity metering and is optimised for range, data communications, interoperability and security.

CyLec enabled meters connect to a Data Concentrator Unit (DCU). The data is collated by the DCU and sent to the CyLec server; scalable licenced software that interfaces to a Meter Data Acquisition System (MDAS) or Meter Data Management System (MDMS).

The standard UART interface enables communication between CyLec and any meter's microcontroller. This straightforward approach guarantees interoperability between meters from multiple manufacturers on the same network.

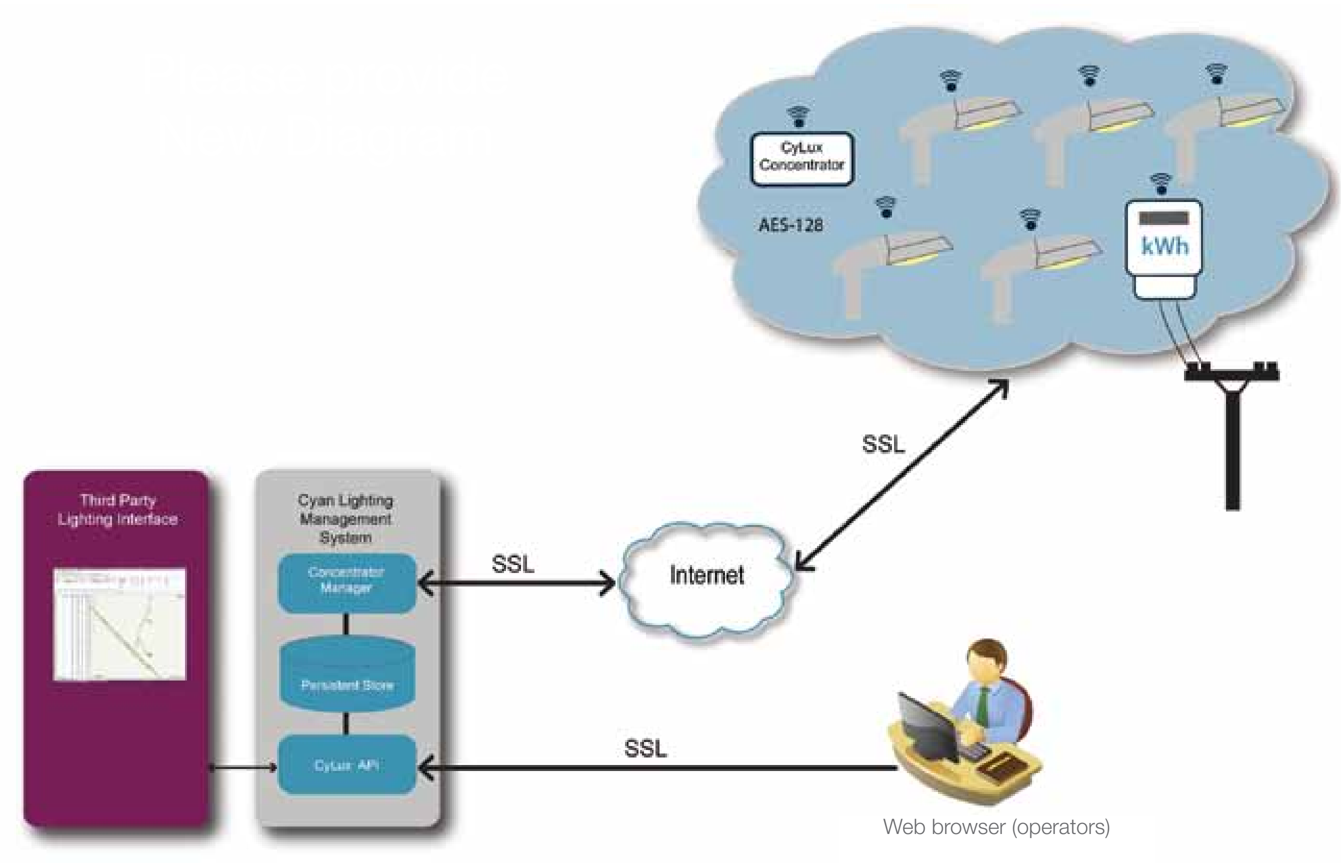


CyLux®

CyLux is an integrated solution for automated smart lighting control and management. It enables significant power savings by enhancing the way in which public lighting energy usage is controlled, measured and managed. Our easy to integrate CyLux modules are optimised for all lighting technologies, including HPS, HID and LED and available on all sub 1GHz ISM bands.

CyLux is configured to allow suppliers to provide an interface, enhanced for localisation worldwide, using standard easy to implement web based applications.

Fitting CyLux to existing or new lighting installations using HID lamps with dimming control provides better energy efficiency, colour temperature and lower average power consumption.Cyan has observed that replacing 250W HPS lamps with 140W HID lamps, fitted with CyLec, a power saving in excess of 150W can be achieved.



Chairman's Statement

" Cyan has made considerable progress in 2011, with that momentum accelerating into the first quarter of 2012. "

2011 was a year that saw Cyan take significant steps towards becoming a major supplier of complete RF mesh system solutions for lighting control and utility metering. This was demonstrated by tangible orders in our focus markets of China and India. At the end of 2011 the Company had both a number of trials in progress and several opportunities for substantial increases in orders in 2012.

Our technology and products deliver cost effective ready-to-deploy solutions which allow established lighting and utility metering manufacturers to easily enhance their products to support remotely managed wireless networks of street-lights and utility-meters. There is substantial growing global demand for such wireless management networks and in recent years Cyan has made significant investment and has gained extensive expertise in designing, manufacturing and deploying such networks. We are therefore confident that we now have the correct products, partnerships and market strategy to deliver increased shareholder returns.

Progress in China and India

In the second half of 2011 we announced two key lighting developments in China. Firstly, news that we had secured a strategic agreement with China's largest street lighting manufacturer, Shanghai Yaming Lighting Co ('Yaming'). Aside from the immediate benefits from Yaming's selection of Cyan, we expect there to be a positive influence on other companies seeking a wireless lighting control solution.

We announced two follow on orders from China Public Lighting Control ('CPLC'). The potential requirement for millions of units over the next two years is consistent with our understanding of the size of the lighting market in China and could be transformational to the Company's growth. This is one of a number of active lighting customers in China and India, which promise to delivery significant revenue growth.

Turning to India, the company successfully demonstrated a live RF mesh based system at the Smart Energy Conference in Delhi. Over 150 meters had been deployed by our partner Capital Meters in the NOIDA suburb of Delhi in a variety of testing environments and readings from these were shown in real time as part of the paper presented. As a result of this demonstration interest in our metering products increased substantially.

In December we announced another significant development for our metering products, a strategic alliance with Wipro Technologies, the global Information Technology, Consulting and Outsourcing business. The agreement see Wipro providing Consulting and IT Services to power utility companies in India deploying wireless meters incorporating CyLec®, Cyan's wireless communication solution for electricity metering. Other such strategic alliances are in the pipeline.

The increasing cost of energy and limitations in generating capacity within the developing world are significant factors restraining the potential levels of future economic growth in these countries. Accordingly, energy efficiency continues to be a major focus for the governments of developing countries.

As a result of this Governmental pressure we are experiencing a substantial increase in enquiries from both China and India, which is very pleasing.

Funding

By mid-year, Cyan was experiencing growth in the number and frequency of initial orders for lighting products but not yet at a level that would sustain the cash flow requirements of the business.

These projects have total requirements significantly larger than the initial orders placed with Cyan. In some cases Cyan has been able to estimate the entire size of the likely follow-on projects and is confident that these opportunities represent major potential revenues.

The pace of new enquiries and the number of active prospects was also increasing and as Cyan began to expand into new geographies these increased the requirement for both working capital and local support. The board was excited by the opportunities for Cyan's lighting business and wished to accelerate the development of new back office management systems to address customer demand for secure systems capable of managing networks of hundreds of thousands of lights.

Chairman's Statement continued

In the Indian metering market interoperability between products from individual meter manufacturers is a critical market requirement. Any one utility must be able to purchase meters from a selection of suppliers. It became necessary for Cyan to work with several large meter manufacturers to show how this could be done with the CyLec system where the meters have to be able to talk with each other and thence to a central control unit linked via a GPRS backhaul to servers running a Meter Data Management System ('MDMS'). This required further development and working capital and was a key factor in our decision to raise funds.

The company raised £2.6 million net of expenses via two placings and an issue of warrants, in July and December 2011. This was in addition to a subscription for £0.9 million raised in January 2011. This money provided the Company with incremental resources for working capital, enabled the acceleration of development of our lighting system and the investment in pursuing the strategic metering agreements.

2011 was the year when Cyan firmly established its key niches in lighting and metering. Revenues increased over 2010 and the Board believes the Company is strongly positioned to capitalise on its partnerships and customer engagements within India and China. The Board expects 2012 to be a year of significant ramp up in order intake, which will translate into revenue increases.

Financial Information

Revenue increased significantly from £139,047 in 2010 to £455,591 in 2011. Operating loss for the year ended 31 December 2011 was £3,499,499 (2010 £2,954,055) and net loss increased to £3,151,576 (2010 £2,648,116). This was predominantly due to increased costs incurred to put the Company in a place to secure orders. Cash at yearend was £364,590 (2010 £1,484,437) however this was increased on 6 January 2012 by £1.5m net due to a successful placing, mentioned elsewhere in this report.

Post Period Events

In February 2012 we were able to announce that five major meter suppliers tendering for the 1.5 million unit order at the Tamil Nadu Electricity Board ('TNEB') in India had submitted bids, and sample meters, based on Cyan's CyLec system. Further, that, as far as we know, this was the only solution fully conforming to the requirements of the request for quote.We await the outcome of the assessments and pilots for this opportunity.

In mid March we were pleased to announce that telecoms and smart metering industry veteran John Cronin has joined the board as a non-executive director. He will take over the role of executive chairman from me following the Company's AGM in May 2012. It is my intention to stay on the board as a non-executive director for a period following that to provide continued support.

Finally, I would like to take the opportunity to thank Kenn Lamb, who stepped down as CEO on 5 January 2012 for health reasons, for all he achieved during his time in the role. I and the rest of the Board wish him a speedy recovery.

John Read
Executive Chairman
30 March 2012

Operational Review

Cyan has made considerable progress in 2011, with that momentum accelerating into the first quarter of 2012.

Our business has two principal product groups:

- Lighting monitoring and control
- Utility meter monitoring and control

Lighting control and monitoring (CyLux)

Cyan has developed a fully integrated wireless end-to-end system for public lighting such as; street lights, tunnels, highways, industrial parks and public locations, which is capable of dimming the major different types of lamp; HPS, HID and LED. We are confident that the combination of features in our system makes a unique system solution, and we already have manufacturers of the electronic drivers for these lights producing and installing prototype versions incorporating Cyan wireless control; 'CyLux Inside'.

CyLux allows city authorities to remotely set lighting profiles: turning on / off and dimming at preset times for optimised lighting intensity through evening, late night and morning to maximise power saving. Actual power saving is measured and reported by Cyan's system, a very popular feature with customers as many of them are financially incentivised based on the actual energy saving delivered. In addition to the above functionality CyLux can accurately monitor lamp status and proactively identify maintenance or lamp repair requirements with interactive maps showing lamp locations and status.

Our strategic agreement with China's largest street lighting manufacturer, Shanghai Yaming Lighting Co ('Yaming') is extremely pleasing. We have worked hard for some time to secure this partnership, as we believe that it positions us well for future growth in the Chinese street lighting market. Yaming's long history, the size of the Company and its reputation for quality puts them in a strong position to win future large lighting contracts across China.

In July and September 2011 we announced two follow on orders from China Public Lighting Control ('CPLC'). The first was for 12,000 units followed by a second for 20,000, and the total number of units ordered by CPLC now totals 56,000. We understand that there are potential requirements for millions of units over the next two years.

Electricity and gas meter reading (CyLec &CyGas)

The primary benefits of smart metering to electricity utilities are the reduction of losses through transmission and theft, and the ability to control tariffs and supply from a central location.

Cyan's metering solutions branded CyLec and CyGas have been developed over the last four years to directly address the problems of tampering and theft. Within the developing world it has become very difficult to accurately check usage and enforce payment. Indeed, a recent article in the Economist suggested that the average annual revenue loss in India to the utilities as a result of tampering and theft, is US$11 billion. This figure highlights the extent of this major problem. The senior management of Indian electricity suppliers also tell us that between 30% and 50% of electricity generated is not paid for.

Current model wireless meter installations utilise handheld units permitting meter reading without entering a property. However CyLec enables not only full real-time updates of meter readings and usage to a centralised MDMS system together with 'tamper alerts', but also provides for on-line management of the meters for tariff changes, pay-as-you-go and other key features. It is this total package of capability and the possibilities thus enabled that excites the utilities and system integrators.

CyLec has interoperability as a core feature and can be integrated into existing meter designs without requiring disclosure of proprietary information. We have demonstrated interoperability of meters from several suppliers and this provides for robustness of supply for the purchasing utilities.

We continue to be at the forefront of the development of wireless mesh network solutions for electricity and gas metering. We have seen a substantial ramp up in enquiries and new tender requirements for these products within India and China, where inaccurate readings and tampering are such a major issue.

A significant achievement was the signing of our agreement with Wipro in November. Wipro is a global leader in the Energy and Utilities sector with proven expertise in IT transformational programs and significant domain expertise in the 'Utilities space'. The Company has over 12,000 employees in 54 countries.

By partnering with Wipro, we can combine their service delivery expertise with Cyan's CyLec solution to deliver much sought-after benefits to Indian utilities. Indian utilities are suffering staggeringly high aggregate technical and commercial losses of nearly 30% and they are determined to adopt solutions that help reduce these losses.

Other strategic partnerships are in negotiation. With these key partnerships in place, Cyan is set to be a leader in supply of solutions to the nationwide reduction in and recapturing of revenues for electrical utilities in India.

Operational Review continued

Conclusion

We believe Cyan is focussed on the right markets, and that we have market leading products. Our strategic partnerships with major companies in both of our key markets gives us continued confidence that we are well positioned to deliver shareholder value as our revenues track the pace of growth of these markets. The business is now very well positioned to grow rapidly and I thank all of our staff, the board for their efforts and diligence, and our shareholders for their support.

Outlook for remainder for 2012

TNEB is one of the largest electricity distributors in India. In November, it published a tender for the supply of 1.5 million meters during the second half of 2012 and first half of 2013 as part of its consumer network upgrade programme. This represents the first phase in what is anticipated to be a total upgrade programme of 18 million meters.

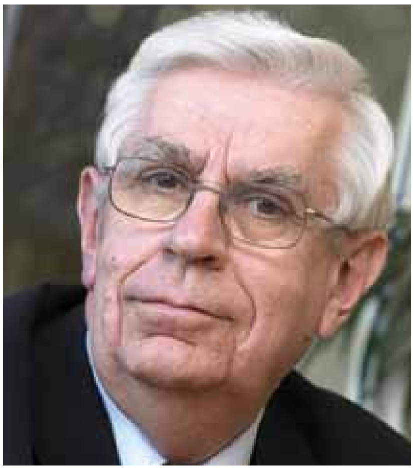
The submission phase of the tender process was completed in early March and we are in a strong position with 5 of the 16 candidates submitting meters containing CyLec technology, including two of the largest meter suppliers to TNEB. We expect the outcome of the tender to be announced by 1 June 2012. We look forward to updating shareholders as further information becomes available.

A positive outcome of this tender would be transformational to the Company.

A further larger tender is expected to be released early in the second quarter of this year.

In addition, with our strategic partnership in place with the largest Chinese street lighting manufacturer, and the large orders already received for our lighting products in China, we believe Cyan to be in a strong position for substantial growth in this market in 2012.

Board of Directors



Dr John Read

Executive Chairman (aged 70)

Dr John Read is an experienced manager with a record of developing profitable high-tech semiconductor businesses. In the late 1990s he was a director of GEC Plessey Semiconductors and joint president of GPS Inc. in California. Since then he has been involved with a number of fabless start-ups: he was a director of Alphamosaic Limited (which was sold to Broadcom Europe Limited), and served on the board of Anadigm Limited from 2000 to 2003. He is an active mentor for the Cambridge Entrepreneurship Centre and for SETSquared in Surrey. Other positions held include technical director of Texas Instruments in the UK, technical director at STC Telecommunications, and director of engineering at Honeywell's Solid State Electronics in Minnesota. Dr Read is a director of the semiconductor Company Si-Light Technologies Limited and a director of Iceni Advisory Limited. He became a Director of Cyan in November 2005, was appointed Chairman in October 2007, and Executive Chairman in January 2011.

John Cronin

Non-Executive Director (aged 56)

John Cronin is a seasoned and successful professional. He has been instrumental in mergers & acquisitions worldwide, raised equity, debt facility and vendor financing funding between $50m and $900m and set up operations in international markets. In addition he has created significant value for shareholders with 4 Company exits in Picochip, Azure Solutions, i2 and Netsource Europe totalling $600m.

John's contribution to high-tech industries includes being Chairman, CEO, NED, or adviser to Antenova, GCI Com, Aria networks, Picochip, Arqiva, i2, Cambridge Networks, Kast, Azure, Next2Friends, Bailey Fisher, Netsource, Mercury (C&W), BT and direct to private equity and VC firms.

A highly successful Chairman, CEO and MD in International markets (Europe, Americas, SE. Asia) in the Technology, Media and Telecommunications sector including, Smart Metering, IT Software companies, OSS, Infrastructure, Hardware, Broadcast, Telecommunications, Utilities, Hosting and Managed Services, John Cronin joined the board in March 2012 initially as a non-executive director, with a view to taking over from John Read as Executive Chairman following the Company's AGM in May 2012.

Simon Smith

Non-Executive Director (aged 44)

Simon joined the board in March 2010. He is an experienced financial executive with over twenty years' experience in the semiconductor and technology sectors. He is currently an independent advisor to both start-up and listed technology companies providing a range of assistance including fund raising, business planning and contract negotiation.

Prior to establishing himself as an independent advisor in 2007, Simon held the position of Chief Financial Officer / Director of Finance at multi-national businesses in both the UK and USA since 1997 and his experiences include multiple business acquisitions/disposals, fund raising, business planning, cash management and customer contract negotiation.

Before 1997, Simon was a Management Consultant in both the UK and USA where he managed a team of consultants on multiple implementations of ERP systems. Simon qualified with the Institute of Chartered Accountants in England and Wales in 1991.

Senior Management Team

Bijan Mohandes

VP Worldwide Sales & Marketing

Bijan joined Cyan in December 2009 bringing 22 years' experience in Sales & Marketing following an engineering design background. Whilst employed in various Vice President Roles worldwide Bijan successfully organised sales and distribution networks and developed key fast growing markets for Analogictech, Micrel and Siliconix.

With over a decade of design engineering experience Bijan joined Micrel in 1995 as Managing Director. His first objective was to set up UK, French and Spanish subsidiaries of the US Company as well as opening a design centre in Livingston with Scottish Development Agency funding. As Managing Director, Bijan was responsible for all sales and marketing activities as well as direct management of key accounts across EMEA. In the 10 years that he was with Micrel Bijan grew the business from $5.5m to $40m, employing 30+ people.

Stephen Page

VP Engineering

Stephen joined Cyan in 2004 having over 20 years' experience in embedded systems design and implementation. Spending much of his career in freelance consultancy he has worked on a diverse range of systems for many global companies, including development of next generation secure smart cards with the Secure Products Team of NatWest Bank, consumer digital TV, video and graphics products for Pace plc and Imagination Technologies, pre payment electricity meters for Schlumberger and many other projects including those with Shell, BP, BNFL, NPL and the RAF Institute of Aviation medicine.

Kenn Lamb

Chief Strategy Officer

Kenn joined Cyan as CEO April 2007 and moved to the position of CSO in January 2012. From 2001 to 2006, Kenn was CEO of Elixent where he completed a successful sale of the business to Matsushita of Japan. Prior to Elixent he was Senior Vice President Sales at ARC International plc where he managed the restructuring of its international sales team. After two years of sales growth, ARC completed a successful London Stock Exchange flotation in September 2000 with a market capitalization of £500m. Before joining ARC, Kenn was Managing Director of Actel Inc's European FPGA businesses. Kenn is currently on medical absence from the Company.

Directors' Report

The Directors present their annual report on the affairs of the Group together with the audited financial statements and auditor's report for the year ended 31 December 2011.

Principal activity and review of the business

The principal activity of the Group during the year was the specialisation in the development of wireless monitoring and control products for managing lighting systems and for implementing automated meter reading. The principal activity of the Company is that of a holding Company. A review of the business can be found in the Chairman's statement and the Operational Review.

Principal risks and uncertainties

The Group is exposed to a number of risks and uncertainties. Those that are considered to be key to the Group are:

Economic

- Sales into the street lighting sectors are subject to local or central government approval of significant infrastructure investment programmes, which may be uncertain in timing and subject to significant changes arising from political factors.

Financial

- As discussed below, the Group's ability to continue as a going concern is subject to significant risks and uncertainty.

Business Strategy

- Sales by the Group are largely dependent on end-customers winning competitive tenders for significant contracts. The likelihood of the end-customers winning these contracts is inherently uncertain.

Competition

- The Group's products compete for technological superiority over those of competitors. There is a risk that new product developments by competitors diminish the attractiveness of the Group's products, reducing sales.

Dependence on key management personnel

- As with many technology businesses, the Group is dependent on a relatively small number of highly skilled staff. The ability of the Group to retain and motivate its key staff is a key business risk.

The risks and uncertainties faced by the Group are discussed regularly and addressed through the Senior Management Team. The Group invests in research and development to ensure that its products provide the best possible match to potential customers' requirements. The Group maintains close relationships with its distributors and potential end-customers in order to respond to the changing demands of the market. In addition, the Group actively communicates with its investors and potential investors, including through its nominated advisor and brokers, in order to identify potential sources of further investment.

Key performance indicators

During 2011, the Group incurred a monthly average operating cash burn of £296,000 (2010: £203,000) and incurred a loss for the year of £3,151,576 (2010: £2,648,116). Revenue in 2011 was £455,591 (2010: £139,047). The group had an average of 29 staff in 2011 (2010: 29).

Going Concern

The directors have prepared a business plan and cash flow forecast for the period to 31 December 2013 which, together, represent the directors' best estimate of the future development of the Group. The forecast contains certain assumptions, the most significant of which are the level and timing of sales and the gross margin on those sales, together with the need to secure additional finance in order to fund working capital within the next six months.

At the time of the preparation of these financial statements, the sales forecast includes a potential large contract with an Indian utility customer (TNEB). The TNEB tender has been issued for 1.5m units and the directors believe that the Group is well placed to be awarded contracts (through Indian meter manufacturer partners) for the majority of the tender. If successful, the directors believe that delivery on the tender would commence in Q2 2012 and that this contract would be transformational for the Group in terms of both customer and shareholder perception. The directors' understanding is that TNEB have plans to install/replace 18M meters over a 5 year period and further tenders towards this goal will be issued in the second half of 2012. The Group has other significant sales opportunities in the pipeline that are being progressed in parallel.

The directors have recognised that the Group is trading principally in two emerging country markets, namely India and China. These markets have an inherent level of uncertainty associated with them and this may result in the predicted level of sales not being achieved and/or the timing of orders being delayed, as has been the case for the Group in the past. The directors have taken reasonable steps to satisfy themselves about the robustness of sales forecasts but acknowledge that the timing of customer orders in the Group's target markets is inherently uncertain. This may impact both the Group's ability to generate positive cash flow and to raise new finance. Consequently there is a significant risk that the level of sales achieved is materially lower than the forecast or at materially lower margins. This constitutes a material uncertainty.

At the Group's General Meeting held on 5 January 2012, resolutions were passed to: (i) complete placings of £1.7 million (before expenses) through the issue of 420 million new ordinary shares; and (ii) issue 420 million warrants to the places that have an exercise price of 0.6p and a 6 month exercise window until 5 July 2012. If exercised in full, the warrants would provide the Group with additional funding of £2.5 million (before expenses). Given the commercial prospects at the time of the preparation of this report (particularly TNEB described above), the directors consider that the Group has a good opportunity to see the share price rise above 0.6p before 5 July 2012 and therefore benefit from the exercise of

Directors' Report continued

the warrants. If the share price is at or below 0.6p on 5 July 2012, it is likely that the warrants will not be exercised and the Group will need additional funding from another source. There remains a significant risk that the required level of funding will not be received in the necessary timescales or at all. This constitutes a material uncertainty.

Notwithstanding the material uncertainties described above, the directors have a reasonable expectation that the Group and Company can continue to meet their liabilities as they fall due, for a period of at least 12 months from the date of approval of this report. Accordingly, they have prepared these financial statements on the going concern basis.

The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern. In the event the Group ceased to be a going concern, the adjustments would include writing down the carrying value of assets, including inventories, to their recoverable amount and providing for any further liabilities that might arise.

Dividends

The Directors do not recommend the payment of a dividend (2010: £nil). The Group has no plans to adopt a dividend policy in the immediate future and all funds generated by the Group will be invested in the further development of the business, as is normal for a Company operating in this industry sector and at this stage of its development.

Capital Structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 23. At 31 December 2011, the Company had one class of ordinary shares of 0.2 pence each, which carried no right to fixed income and represented 100% of the issued share capital of the Company. Each share carried the right to one vote at general meetings of the Company. The Company's capital structure consisted only of issued share capital, which it manages to maximise the return to shareholders. On 6 January 2012, the Company underwent a share restructure the effect of which was to reduce the nominal value of the Company's shares to 0.01 pence per share. All rights attached to the new shares remain the same following this restructure.

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

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

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

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Corporate Governance Statement on page 14.

As at 31 December 2011, under its Articles of Association and pursuant to authorities granted under the Companies Act, the Company had authority to issue ordinary shares of 0.2 pence each up to a nominal value of £3,000,000. However at the same time as the Company's share restructure in January 2012, it adopted a new set of Articles whereby, in accordance with the Companies Act 2006 it no longer has an authorised share capital.

Subsequent events

The Company raised additional equity finance in January 2012. Further details of this are provided in the funding section of the Chairman's statement.

Directors and their interests

The Directors who served the Company throughout the year were as follows:

Executive Directors
Kenn Lamb – resigned 4 January 2012

Non-Executive Directors
Dr John Read (Executive Chairman)
Simon Smith

In addition Mr John Cronin was appointed to the board on 20 March 2012, as Executive Chairman designate. He will retire at the Annual General Meeting in May 2012, and offers himself for re-election.

All three directors are the members of the audit committee, nominations committee and remuneration committee. Dr John Read retires at the next Annual General Meeting and, being eligible, offers himself for re-election.

The Company is in the process of recruiting a further non-executive director in line with corporate governance best practice.

The interests of the Directors in the shares of the Company are shown in the remuneration committee report on page 15.

Research Design and Development

The Group is committed to the research, design and development of mesh based flexible solutions for lighting, utility metering and industrial telemetry. The costs relating to this which have been written off in the year amounted to £1,865,982 (2010: £1,737,703).

Significant Holdings

In addition to the Directors' interests shown in the remuneration committee report on page 15 the Company had been notified of the following voting rights as a shareholder in the Company at 23 February 2012:

	Percentage of voting rights and issued share capital	Number of ordinary shares	Nature of holding
P Lobbenberg	10.96%	176,776,923	Combined
Legal and General	9.05%	145,961,538	Direct
XCAP Nominees Ltd	6.98%	83,230,769	Direct
Brewin Dolphin Limited	5.76%	92,751,594	Direct
Barnard Nominees	6.33%	88,300,000	Combined
Investec Wealth & Investment Ltd	3.15%	50,827,000	Direct

Fixed Assets

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

Supplier payment policy

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

The average credit period taken for trade purchases is 25 days (2010: 25 days).

Charitable and political donations

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

Auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

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

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

John Read
Executive Chairman
30 March 2012

Corporate Governance Statement

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

Board composition and responsibility

During 2011, there was clear division of duties between the Chief Executive Officer and the Chairman. At 31 December 2011 the Board comprised three Directors, two of whom were independent Non-Executive Directors. However on 4 January 2012, Kenn Lamb resigned from his role as CEO and on 24 January 2012 Dr John Read was appointed Executive Chairman of the Company.

Furthermore, on 20 March 2012, John Cronin was appointed as Non-Executive Director (Chairman Designate). He is a member of the audit, nominations and remuneration committees.

Simon Smith is an independent non-executive director with responsibility for ensuring that the financial performance of the Company is properly reported upon and monitored, and considering reports from the auditor relating to accounts and internal control-systems. All of the directors have responsibility for reviewing the performance of and setting the compensation of all directors. Non-Executive Directors do not have any day to day involvement in the running of the business.

The Board is responsible for overall strategy, the policy and decision making framework in which this strategy is implemented, approval of budgets, monitoring performance, and risk management. The Board meets at regular scheduled intervals and follows a formal agenda; it also meets as and when required. All directors are required to retire by rotation according to the Articles of the Company. No director has a service agreement requiring more than six months' notice of termination to be given.

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

Board Committees

The Company has an Audit Committee, a Nominations Committee and a Remuneration Committee. Each of these committees consists of all three of the Directors. John Read chairs the nominations and remuneration committees and Simon Smith chairs the audit committee.

Board Nominations

The Company has formal procedures for making appointments to the board and these would be applied to ensure that any new appointments that might be made meet the desired criteria.

Relationships with Shareholders

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

Remuneration Committee Report

Remuneration committee

The Company has established a Remuneration Committee. The members of the committee during 2011 were Dr John Read and Simon Smith. Both directors were independent non-executive directors during 2011 and the committee was chaired by Dr John Read. In January 2012 Dr John Read was appointed Executive Chairman, and still chairs the remuneration committee. In March 2012 John Cronin was appointed non-executive director with a view to taking over the Executive Chairmanship of the Company from Dr Read following its AGM in May 2012. He is currently also a member of the remuneration committee.

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

Remuneration policy for the executive directors

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

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

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

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

Basic Salary

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

Benefits-in-kind

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

Annual bonus payments

The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. In setting appropriate bonus parameters the Committee refers to the objective research on a comparator group of companies as noted above. The Committee believes that any incentive compensation awarded should be tied to the interest of the Company's shareholders and that the principal measure of those interests is total shareholder return. Account is also taken of the relative success of the different parts of the business for which the executive directors are responsible and the extent to which the strategic objectives set by the board are being met. Bonus payments for the year ended 31 December 2011 amounted to £70,000 (2010:£60,000). The Committee has the power to grant bonuses at its discretion.

Share options

During the year ended 31 December 2007, following notification in the circular to the shareholders for the Extraordinary General Meeting on 24 August 2007, the Company commenced work on setting up an Employee Benefit Trust. During the year ended 31 December 2011, there were no issues under this scheme (2010: no issues).

The performance criterion that must be met is based on the fact that no director will gain via the Employee Benefit Trust until the share price (0.41 pence on 31 December 2011) has recovered to 2.5 pence.

Pension arrangements

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

Directors' contracts

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

Name of Director	Date of contract
Kenn Lamb (resigned 4 January 2012)	27 March 2007
Dr. John Read	30 November 2005
Simon Smith	29 March 2010
John Cronin	20 March 2012

Remuneration Committee Report continued

Audited information

Non-executive directors

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

Dr. John Read	£50,000
Simon Smith	£25,000

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

Directors' emoluments

Name of director	Fees/Basic salary £	Benefits in kind £	Compensation for loss of office £	Annual bonuses £	2011 total £	2010 total £
Executive						
Kenn Lamb	151,843	1,583	–	70,000	223,426	211,831
Non-Executive						
Dr. John Read	50,000	–	–	–	50,000	50,000
Simon Smith	25,000	–	–	–	25,000	19,037

No fees were paid to third parties in respect of directors' services during 2011 (2010:£12,500).

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the directors. There were no options exercised by directors during the year (2010: nil)

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

During 2008 an Employee Benefit Trust was set up (EBT). No shares were issued to Directors during the year under this scheme (2010:nil). At 31 December 2011, shares held by Directors under this scheme were as follows:-

	2011	2010
Kenn Lamb	**30,000,000**	30,000,000
John Read	**1,000,000**	1,000,000
	31,000,000	31,000,000

The market price of the ordinary shares at 31 December 2011 was £0.0041 and the range during the year was £0.0040 to £0.0147.

The executive director is a member of a money purchase pension scheme. Contributions paid by the Company in respect of such director were as follows:

	2011	2010
Kenn Lamb	**3,454**	4,710

Approval

This report was approved by the board of directors on 30 March 2012 and signed on its behalf by:

John Read
Executive Chairman
30 March 2012

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have chosen to prepare the parent Company financial statements under IFRSs as adopted by the EU. Under Company law the directors must not approve the accounts unless they are satisfied that they give a fair view of the state of affairs of the Company and of profit and loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that the directors:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose them with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

By order of the Board

John Read
Executive Chairman
30 March 2012

Independent Auditor's Report to the Members of Cyan Holdings Plc

We have audited the financial statements of Cyan Holdings plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent Company's affairs as at 31 December 2011 of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adjusting of the disclosures made in note 3 of the financial statements concerning the Company's ability to continue as a going concern. The Group incurred a net loss of £3,151,576 during the year ended 31 December 2011 and, as of that date, the Group's cash balance was £364,590. In making their assessment of whether the application of the going concern assumption is appropriate, the directors have referred to the Company's business plan and cash flow forecast, which assumes a certain level of sales at a certain gross margin and a need in the foreseeable future for additional funding. There is a significant risk that the actual level of sales achieved is materially lower than is assumed in the business plan or that margins may be significantly lower than planned. In addition there is a risk that the required level of additional funding will not be received on a sufficiently timely basis or will not be achieved at all. These conditions, along with other matters in note 3, indicate the existence of a material uncertainty which may cast significant doubt upon the Company's ability to continue as a going concern. The financial statements do not contain the adjustments that would result if the Group was unable to continue as a going concern. In the event the Group ceased to be a going concern, the adjustments would include writing down the carrying value of assets, including inventories, to their recoverable amount and providing for further liabilities that might arise.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Stuart Henderson
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom
30 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 £	2010 £
Continuing operations			
Revenue	6	**455,591**	139,047
Cost of sales		**(321,477)**	(96,326)
Gross profit		**134,114**	42,721
Research and development costs		**(1,865,982)**	(1,737,703)
Other operating costs		**(1,767,631)**	(1,259,073)
Operating loss		**(3,499,499)**	(2,954,055)
Investment revenue	6,11	**2,146**	1,487
Finance costs	12	**(7)**	(85)
Loss before tax		**(3,497,360)**	(2,952,653)
Tax	13	**345,784**	304,537
Loss for the year	8	**(3,151,576)**	(2,648,116)
Loss per share (pence)			
Basic	14	**(0.3)**	(0.4)
Diluted	14	**(0.3)**	(0.4)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 £	2010 £
Loss for the year	**(3,151,576)**	(2,648,116)
Exchange differences on translation of foreign operations	**(34,104)**	(66,140)
Total comprehensive income for the period	**(3,185,680)**	(2,714,256)

Consolidated Balance Sheet

At 31 December 2011

	Note	2011 £	2010 £
Non-current assets			
Intangible assets	15	**–**	–
Property, plant and equipment	16	**29,843**	29,114
		29,843	29,114
Current assets			
Inventories	18	**973,577**	872,923
Trade and other receivables	19	**562,182**	411,848
Cash and cash equivalents	19	**364,590**	1,484,437
		1,900,349	2,769,208
Total assets		**1,930,192**	2,798,322
Current liabilities			
Trade and other payables	22	**349,126**	283,872
Total liabilities		**349,126**	283,872
Net assets		**1,581,066**	2,514,450
Equity			
Share capital	23	**2,385,401**	1,847,666
Share premium account	24	**21,965,649**	20,378,625
Own shares held	25	**(690,191)**	(690,191)
Share option reserve	26	**604,536**	476,999
Translation reserve		**(328,358)**	(294,254)
Retained earnings	27	**(22,355,971)**	(19,204,395)
Total equity being equity attributable to owners of the Company		**1,581,066**	2,514,450

The financial statements of Cyan Holdings plc (registered number 04554942) were approved by the board of Directors and authorised for issue on 30 March 2012. They were signed on its behalf by:

John Read
Director

Our Business

Our Governance

Our Financials

Consolidated Statement of Changes in Equity

At 31 December 2011

	Share Capital £	Share Premium £	Own shares held £	Share Option Reserve £	Translation Reserve £	Retained Losses £	Total Equity £
Balance at 31 December 2009	**1,309,565**	**19,026,290**	**(690,191)**	**379,886**	**(228,114)**	**(16,556,279)**	**3,241,157**
Loss for the year	–	–	–	–	–	(2,648,116)	**(2,648,116)**
Other comprehensive income for the year	–	–	–	–	(66,140)	–	**(66,140)**
Total comprehensive income for the year					(66,140)	(2,648,116)	**(2,714,256)**
Issue of share capital	538,101	1,352,335	–	–	–	–	**1,890,436**
Credit to equity for share options	–	–	–	97,113	–	–	**97,113**
Balance at 31 December 2010	**1,847,666**	**20,378,625**	**(690,191)**	**476,999**	**(294,254)**	**(19,204,395)**	**2,514,450**
Loss for the year	–	–	–	–	–	(3,151,576)	**(3,151,576)**
Other comprehensive income for the year	–	–	–	–	(34,104)	–	**(34,104)**
Total comprehensive income for the year	–	–	–	–	(34,104)	(3,151,576)	**(3,185,680)**
Issue of share capital	537,735	1,587,024	–	–	–	–	**2,124,759**
Credit to equity for share options	–	–	–	127,537	–	–	**127,537**
Balance at 31 December 2011	**2,385,401**	**21,965,649**	**(690,191)**	**604,536**	**(328,358)**	**(22,355,971)**	**1,581,066**

Company Balance Sheet

At 31 December 2011

	Note	2011 £	2010 £
Non-current assets			
Intangible assets	15	–	–
Investments in subsidiaries	33	**607,858**	478,999
		607,858	478,999
Current assets			
Loans to other Group entities	33	–	–
Trade and other receivables	19	**214,893**	308,135
Cash and cash equivalents	19	**191,043**	1,330,260
		405,936	1,638,395
Total assets		**1,013,794**	2,117,394
Current liabilities			
Trade and other payables	22	**41,196**	36,857
Loans from other Group entities		**2,000**	2,000
Total liabilities		**43,196**	38,857
Net assets		**970,598**	2,078,537
Equity			
Share capital	23	**2,385,401**	1,847,666
Share premium account	24	**21,965,649**	20,378,625
Share option reserve	26	**604,536**	476,999
Retained earnings	27	**(23,984,988)**	(20,624,753)
Total equity		**970,598**	2,078,537

The financial statements of Cyan Holdings plc (registered number 04554942) were approved by the board of Directors and authorised for issue on 30 March 2012. They were signed on its behalf by:

John Read
Director

Company Statement of Changes in Equity

At 31 December 2011

	Share Capital £	Share Premium £	Share Option Reserve £	Retained Losses £	Total Equity £
Balance at 31 December 2009	**1,309,565**	**19,026,290**	**379,886**	**(17,778,595)**	**2,937,146**
Loss for the year	–	–	–	(2,846,158)	**(2,846,158)**
Other comprehensive income for the year	–	–	–	–	**–**
Total comprehensive income for the year				(2,846,158)	**(2,846,158)**
Issue of share capital	538,101	1,352,335	–	–	**1,890,436**
Credit to equity for share options	–	–	97,113	–	**97,113**
Balance at 31 December 2010	**1,847,666**	**20,378,625**	**476,999**	**(20,624,753)**	**2,078,537**
Loss for the year	–	–	–	(3,360,235)	**(3,360,235)**
Other comprehensive income for the year	–	–	–	–	**–**
Total comprehensive income for the year	–	–	–	(3,360,235)	**(3,360,235)**
Issue of share capital	537,735	1,587,024	–	–	**2,124,759**
Credit to equity for share options	–	–	127,537	–	**127,537**
Balance at 31 December 2011	**2,385,401**	**21,965,649**	**604,536**	**(23,984,988)**	**970,598**

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 £	2010 £
Net cash outflow from operating activities	29	**(3,177,846)**	(2,293,931)
Investing activities			
Interest received		**2,146**	1,487
Purchases of property, plant and equipment		**(29,782)**	(15,126)
Net cash used in investing activities		**(27,636)**	(13,639)
Financing activities			
Interest paid		**(7)**	(85)
Proceeds on issue of shares		**2,225,862**	2,035,913
Share issue costs		**(101,103)**	(145,477)
Net cash from financing activities		**2,124,752**	1,890,351
Net decrease in cash and cash equivalents		**(1,080,730)**	(417,219)
Cash and cash equivalents at beginning of year		**1,484,437**	1,968,072
Effect of foreign exchange rate changes		**(39,117)**	(66,416)
Cash and cash equivalents at end of year		**364,590**	1,484,437

Company Cash Flow Statement

For the year ended 31 December 2011

	2011 £	2010 £
Loss for the year	**(3,360,235)**	(2,846,158)
Operating cash flows before movement in working capital	**(3,360,235)**	(2,846,158)
Decrease in receivables	**93,242**	416,231
Increase/(decrease) in payables	**3,017**	(4,643)
Net cash used by operating activities	**(3,263,976)**	(2,434,570)
Financing activities		
Proceeds on issue of shares	**2,225,862**	2,035,913
Share issue costs	**(101,103)**	(145,477)
Net cash from financing activities	**2,124,759**	(1,890,436)
Net decrease/(increase) in cash and cash equivalents	**(1,139,217)**	(544,134)
Cash and cash equivalents at beginning of year	**1,330,260**	1,874,394
Cash and cash equivalents at end of year	**191,043**	1,330,260

Notes to the Financial Statements

For the year ended 31 December 2011

1. General information

Cyan Holdings plc is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is Cyan Holdings plc, Buckingway Business Park, Swavesey CB24 4UQ. The nature of the Group's operations and its principal activities are set out in the Director's Report on page 11.

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

2. Adoption of new and revised Standards

In the current year, the following new and revised Standards and Interpretations have been adopted.

Improvements to IFRSs 2010 (May 2010)	Improvements to IFRSs 2010
Amendment to IFRS 1 (Jan. 2010)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
IAS 24 (revised Nov. 2009)	Related Party Disclosures
Amendment to IAS 32 (Oct. 2009)	Classification of Rights Issues
Amendments to IFRIC 14 (Nov. 2009)	Prepayments of a Minimum Funding Requirement

No amendments to these financial statements have been made as a result of adopting these new and revised Standards and Interpretations.

Standards and interpretations in issue but not yet effective

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

Amendments to IFRS 1 (Dec 2010)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to IFRS 7 (Oct 2010)	Disclosures – Transfers of Financial Assets
Amendments to IFRS 7 (Dec 2011)	Disclosures – Offsetting Financial Assets and Financial Liabilities
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
Amendments to IAS 1 (June 2011)	Presentation of Items of Other Comprehensive Income
Amendments to IAS 12 (Dec 2010)	Deferred Tax: Recovery of Underlying Assets
Amendments to IAS 32 (Dec 2011)	Offsetting Financial Assets and Financial Liabilities
IAS 19 (revised June 2011)	Employee Benefits
IAS 27 (revised May 2011)	Separate Financial Statements
IAS 28 (revised May 2011)	Investments in Associates and Joint Ventures
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

The Directors do not anticipate that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group.

3. Significant accounting policies

Group

Basis of accounting

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2011

3. Significant accounting policies continued

Going concern

The directors have prepared a business plan and cash flow forecast for the period to 31 December 2013 which, together, represent the directors' best estimate of the future development of the Group. The forecast contains certain assumptions, the most significant of which are the level and timing of sales and the gross margin on those sales, together with the need to secure additional finance in order to fund working capital within the next six months.

At the time of the preparation of these financial statements, the sales forecast includes a potential large contract with an Indian utility customer (TNEB). The TNEB tender has been issued for 1.5m units and the directors believe that the Group is well placed to be awarded contracts (through Indian meter manufacturer partners) for the majority of the tender. If successful, the directors believe that delivery on the tender would commence in Q2 2012 and that this contract would be transformational for the Group in terms of both customer and shareholder perception. The directors' understanding is that TNEB have plans to install/replace 18M meters over a 5 year period and further tenders towards this goal will be issued in the second half of 2012. The Group has other significant sales opportunities in the pipeline that are being progressed in parallel.

The directors have recognised that the Group is trading principally in two emerging country markets, namely India and China. These markets have an inherent level of uncertainty associated with them and this may result in the predicted level of sales not being achieved and/or the timing of orders being delayed, as has been the case for the Group in the past. The directors have taken reasonable steps to satisfy themselves about the robustness of sales forecasts but acknowledge that the timing of customer orders in the Group's target markets is inherently uncertain. This may impact both the Group's ability to generate positive cash flow and to raise new finance. Consequently there is a significant risk that the level of sales achieved is materially lower than the forecast or at materially lower margins. This constitutes a material uncertainty.

At the Group's General Meeting held on 5 January 2012, resolutions were passed to: (i) complete placings of £1.7 million (before expenses) through the issue of 420 million new ordinary shares; and (ii) issue 420 million warrants to the placees that have an exercise price of 0.6p and a 6 month exercise window until 5 July 2012. If exercised in full, the warrants would provide the Group with additional funding of £2.5 million (before expenses). Given the commercial prospects at the time of the preparation of this report (particularly TNEB described above), the directors consider that the Group has a good opportunity to see the share price rise above 0.6p before 5 July 2012 and therefore benefit from the exercise of the warrants. If the share price is at or below 0.6p on 5 July 2012, it is likely that the warrants will not be exercised and the Group will need additional funding from another source. There remains a significant risk that the required level of funding will not be received in the necessary timescales or at all. This constitutes a material uncertainty.

Notwithstanding the material uncertainties described above, the directors have a reasonable expectation that the Group and Company can continue to meet their liabilities as they fall due, for a period of at least 12 months from the date of approval of this report. Accordingly, they have prepared these financial statements on the going concern basis.

The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern. In the event the Group ceased to be a going concern, the adjustments would include writing down the carrying value of assets, including inventories, to their recoverable amount and providing for any further liabilities that might arise.

Basis of consolidation

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue is recognised when it is probable that economic benefits will flow to the Group and delivery of product has occurred, the sales price is fixed or determinable and collectability is reasonably assured.

3. Significant accounting policies continued

Depending on the delivery conditions, title and risk must have passed to that customer and acceptance of the product, when contractually required, must have been obtained, or, in cases where such acceptance is not contractually required, when management has established that all aforementioned conditions for revenue recognition have been met and no further post-shipment obligations exist other than obligations under warranty.

Given that there exists a right of return for sales to the majority of Cyan's distributors, revenue is recognised at an amount that reflects a reduction for the estimated level of returns.

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2011

3. Significant accounting policies continued

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

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

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

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

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

Property, plant and equipment

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

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

Fixtures and equipment	20%–50%

There are no assets held under finance leases.

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

Research and development expenditure

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

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

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

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

3. Significant accounting policies continued

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2011

3. Significant accounting policies continued

Provisions

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

Share-based payments

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

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Company

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

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

The loss for the year dealt with in the financial statements of the Company was £3,360,235 (2010: £2,846,158). As permitted by section 408 of the Companies Act 2006, no separate income statement is presented in respect of the parent Company.

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying the Group's accounting policies

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

- The Directors have prepared the financial statements on the basis that the Company is a going concern. Further information on this critical judgement is included in note 3 and within the Directors' Report.
- Inventories include stocks of raw materials and finished goods that the Directors believe will be sold within the period to September 2012 covered by the Group's business plan. The Directors have assumed that the carrying value is recoverable as a result of the sales and gross margins forecast in that plan. Stocks of product that are not included within the sales forecasts have been provided against in full.

5. Post Balance Sheet Event

Since the end of the period, the Group has raised additional equity funding of circa £1.5 million after expenses by way of two placings. The placings were authorised by existing shareholders on 5 January 2012. In addition the Company underwent a capital restructure in January 2012, which was also authorised by shareholders at the General Meeting on 5 January 2012, the effect of which reduced the par value of the Company's shares from 0.2 pence per share to 0.01 pence per share.

6. Revenue

An analysis of the Group's revenue is as follows:

	2011 £	2010 £
Continuing operations		
Sale of goods	**455,591**	139,047
Investment income	**2,146**	1,487
Total revenue	**457,737**	140,534

7. Business and geographical segments

The Group has concluded that it operates only one business segment as defined by IFRS 8. The information used by the Group's chief operating decision maker to make decisions about the allocation of resources and assessing performance is presented on a consolidated Group basis. Accordingly no segmental analysis is presented. This may change in the future as the Group's business develops further.

During 2011 there were 4 customers (2010: 2) whose turnover accounted for more than 10% of the Group's total revenue as follows:

	Turnover £	Percentage of Total %
Customer A	228,814	50%
Customer B	99,231	22%
Customer C	54,796	12%
Customer D	49,965	11%

Due to commercial sensitivity the names of the above customers have not been disclosed.

During 2011 revenue split between the UK and other countries was as follows:

	2011		2010	
	Turnover £	**Percentage of Total %**	Turnover £	Percentage of Total %
UK	**22,184**	**4.9**	14,074	10.1
Rest of World	**433,407**	**95.1**	124,973	89.9

8. Loss for the year

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

	2011 £	2010 £
Net foreign exchange gains	**(21,963)**	(62,197)
Research and development costs	**1,865,982**	1,737,703
Depreciation of property, plant and equipment	**28,690**	26,017
Inventories recognised as an expense	**32,380**	67,149
Staff costs (see note 10)	**1,842,569**	1,807,865
Operating lease costs	**101,514**	92,488

Notes to the Financial Statements continued

For the year ended 31 December 2011

9. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2011 £	2010 £
Fees payable to the Company's auditor for the audit of the Company's annual accounts	16,000	15,000
Fees payable to the Company's auditor and its associates for the other services to the Group		
– The audit of the Company's subsidiaries pursuant to legislation	10,000	10,000
Total audit fees	**26,000**	25,000
– Tax services	8,650	22,700
– Other services pursuant to legislation	3,158	3,000
Total non-audit fees	**11,808**	25,700

10. Employee information

The average monthly number of employees (including executive Directors) was:

	2011 Number	2010 Number
Sales and administration	15	15
Research and development	11	11
Operations and logistics	3	3
	29	29

	2011 £	2010 £
Their aggregate remuneration comprised:		
Wages and salaries	1,644,651	1,586,594
Social security costs	183,416	167,769
Other pension costs	51,721	53,502
	1,879,788	1,807,865

Key management compensation

The Directors are of the opinion that key management personnel during 2011 comprised of the board of Directors, the Chief Operating Officer, the VP of Sales and Marketing Worldwide and the VP of Engineering. These persons had the authority and responsibility for planning, directing and controlling the activities of the Group. Remuneration for 2011 of these personnel is detailed below. During 2010 key management personnel comprised of the same personnel.

	2011 £	2010 £
Their aggregate remuneration comprised:		
Wages and salaries	546,469	537,519
Social security costs	69,234	74,195
Other pension costs	12,536	12,521
	628,239	624,235

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

11. Investment revenue

	2011 £	2010 £
Interest revenue:		
Bank deposits	**2,146**	1,487

Investment revenue is all earned on cash and cash equivalents.

12. Finance costs

	2011 £	2010 £
Interest on bank overdrafts and loans	**7**	85

13. Tax

	2011 £	2010 £
Current tax:		
UK corporation tax on profits of the period	**(345,784)**	(304,537)
Deferred tax (note 21)	**–**	–
	(345,784)	(304,537)

Corporation tax is calculated at 26.5 per cent (2010: 28 per cent) of the estimated assessable profit for the year.

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

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

	2011 £	2010 £
Loss before tax	**(3,497,360)**	(2,952,653)
At standard rate of 26.5% (2010: 28%)	**(926,800)**	(826,743)
Effects of:		
Tax effect of non deductible expenses	**32,611**	21,384
Effect of overseas tax rates	**23,984**	29,883
Tax effect of capital allowances in deficit/(excess) of depreciation	**7,591**	(4,564)
Net tax effect of research and development	**22,589**	45,925
Tax effect of other unrecognised temporary differences	**7,367**	4,147
Tax effect of unrecognised losses	**486,874**	408,488
Prior year adjustment	**–**	16,943
Actual current tax credit in the year	**(345,784)**	(304,537)

Notes to the Financial Statements continued

For the year ended 31 December 2011

13. Tax continued

Factors affecting tax charge in future years

In March 2011, the UK Government announced a reduction in the standard rate of UK corporation tax to 26% effective 1 April 2011. This rate reduction was substantively enacted in March 2011.

In March 2012, the UK Government announced the main rate of UK Corporation tax would reduce to 24% with effect from 1 April 2012, with subsequent 1% reductions annually to 22% by April 2014. These changes have not yet been substantively enacted.

The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

14. Earnings per share

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

Earnings

	2011	2010
	£	£
Earnings for the purposes of basic earnings per share being net loss attributable to equity holders of the parent	**3,151,576**	2,648,116

Number of shares

	2011	2010
	No.	No.
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**1,021,124,228**	751,804,821

15. Intangible assets

No intangible assets are held at valuation in these accounts.

	Software	
	Group	Company
	£	£
Cost		
At 1 January 2010, 1 January 2011 and 31 December 2011	143,964	143,964
Amortisation		
At 1 January 2010, 1 January 2011 and 31 December 2011	143,964	143,964
Carrying amount		
At 31 December 2011	–	–
At 31 December 2010	–	–

16. Property, plant and equipment

No assets are held at valuation in these accounts.

Group

	Fixtures and equipment £
Cost	
At 1 January 2010	266,131
Additions	15,126
Exchange differences	1,150
At January 2011	282,407
Additions	29,782
Disposals	(399)
Exchanges differences	393
At 31 December 2011	312,183
Accumulated Depreciation	
At 1 January 2010	226,402
Charge for the year	26,017
Exchange differences	874
At 1 January 2011	253,293
Charge for the year	28,690
Disposals	(83)
Exchange differences	440
At 31 December 2011	282,340
Carrying Amount	
At 31 December 2011	29,843
At 31 December 2010	29,114

At 31 December 2011 the Group had no contractual commitments outstanding for the acquisition of property, plant and equipment (31 December 2010: £nil).

17. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 33.

Notes to the Financial Statements continued

For the year ended 31 December 2011

18. Inventories

Group

	2011	2010
	£	£
Raw materials	632,326	708,618
Finished goods	341,251	164,305
	973,577	872,923

The Company holds no inventories at either balance sheet date.

19. Trade and other receivables and financial assets

Both the Company and the Group have a single category of financial asset being loans and receivables. The Group's loans and receivables, which include cash and cash equivalents as well as trade receivables total £471,619 (2010: £1,498,171). Those of the Company include loans and cash and cash equivalents and total £191,043 (2010: £1,330,260).

Trade and other receivables

	Group		Company	
	2011	2010	2011	2010
	£	£	£	£
Amount receivable for the sale of goods	107,028	13,734	–	–
Other debtors	387,821	350,732	7,022	11,085
EBT Loan	–	–	172,139	268,518
Prepayments	67,333	47,382	35,732	28,532
	562,182	411,848	214,893	308,135

During the year nothing was written off the value of the carrying amount of trade and other receivables (2010: £nil).

The Directors consider that the carrying amount of trade and other receivables at 31 December 2011 approximates to their fair value.

Amounts receivable from the Group undertakings are shown in note 33.

Cash and cash equivalents

	Group		Company	
	2011	2010	2011	2010
	£	£	£	£
Cash and cash equivalents	364,590	1,484,437	191,043	1,330,260

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

Barclays Bank plc have given a guarantee in respect of £10,000 to HMRC on behalf of Cyan Technology Limited. As security for this guarantee, Barclays hold a legal charge over a deposit account held specifically for this purpose for £10,000. This cash cannot be used for any other purposes.

20. Financial risk management

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

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates as it undertakes certain transactions denominated in foreign currencies. This is managed through careful control of the Group's foreign currency balances. There has been no change to the Group's exposure to market risks or to the manner in which it measures and manages the risk. The Group and Company had no material foreign exchange exposures at 31 December 2011 or 31 December 2010 and consequently no sensitivity analysis is presented.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables, the credit risk on other classes of financial asset is insignificant. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is no longer limited after the collapse of many banks in the worldwide economy. It will become increasingly important to only deal with reputable banks and try as far as possible to ensure the security of funds invested in treasury.

At 31 December 2011 the Group had no significant concentration of credit risk, with exposure being both small in quantum and spread over a number of counterparties and customers.

There are no debtors which were past due at the reporting date and not impaired (2010: £83). £65,811 is 0–90 days overdue (2010: £nil) and nothing is over 90 days overdue (2010: £83); the remaining balance is not yet due. There was no allowance for doubtful debts at 31 December 2011 (2010: £nil). There was no bad debt charge for the year (2010: £nil). The Company has made a provision against the full amount of the debt owed to it by its subsidiary companies totalling £24,418,528 (2010: £21,078,423). In addition, the Company has made a provision of £518,052 (2010: £421,673) against the debt owed to it by Cyan Technology Limited relating to the loan for EBT shares, to bring the loan in line with market value of the shares held in the Trust. These amounts are not overdue. Since the Group holds no collateral, the maximum exposure to credit risk is the carrying value of trade receivables.

Liquidity risk

Liquidity risk is discussed within note 22.

21. Deferred tax

No deferred tax liabilities and assets have been recognised by the Group in the current or prior reporting period. At the balance sheet date an unrecognised deferred tax asset relating to tax losses and accelerated capital allowances of £3.1m (2010: £2.9m) existed. No deferred tax asset has been recognised due to the unpredictability and uncertainty of future profit streams.

22. Other financial liabilities

Both the Group and the Company have only one category of financial liability being trade payables held at amortised cost. Those of the Group totalled £29,039 (2010: £50,620) and those of the Company totalled £13,071 (2010: £17,357).

Trade and other payables

	Group		Company	
	2011	2010	**2011**	2010
	£	£	**£**	£
Trade payables and accruals	**349,126**	283,872	**41,196**	36,857

Notes to the Financial Statements continued

For the year ended 31 December 2011

22. Other financial liabilities continued

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs all of which are payable within a year. The average credit period taken for trade purchases is 25 days (2010: 25 days). The Group has no incurred interest charges for late payment of invoices during the year (2010: £nil). The Group has financial risk management policies in place to ensure that all payables are paid within agreed credit timeframes. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows.

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

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

23. Share capital

	2011 Number	2010 Number
Authorised:		
Ordinary shares of 0.2 pence each	**1,500,000,000**	1,500,000,000

	2011 £	2010 £
Issued and fully paid:		
1,192,700,288 (2010: 923,832,983) ordinary shares of 0.2 pence each	**2,385,401**	1,847,666

On 24 January 2011 the Company completed a subscription the result of which 72,000,000 ordinary shares of 0.2 pence per share were issued at a price of 1.25 pence per share to raise £0.9m.

On 16 August 2011 the Company completed a placing the result of which 182,384,615 ordinary shares of 0.2 pence each were issued at a price of 0.65 pence per share to raise £1.1m after expenses. The funds from the placing were raised to develop and execute on the Group's strategy.

On 5 January 2012 the Company completed a placing the result of which 420,200,000 ordinary shares of 0.2 pence each were issued at a price of 0.40 pence per share to raise £1.5m after expenses.

During 2011 Kenn Lamb and John Read purchased shares on a monthly basis, summarised below, as part of the Directors' share plan detailed in the Cyan circular of September 2010.

Kenn Lamb	3,622,302 shares
John Read	2,298,300 shares

During 2011, invoices for certain suppliers were settled by way of share issues as follows:

16 February 2011	3,400,000 shares
28 March 2011	1,153,847 shares
21 July 2011	4,008,242 shares

No shares were issued as a result of the exercise of share options (2010: none).

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

24. Share premium account

	Group £	Company £
Balance at 1 January 2010	19,026,290	19,026,290
Premium arising on issue of equity shares	1,497,812	1,497,812
Expenses of issue of equity shares	(145,477)	(145,477)
Balance at 31 December 2010	20,378,625	20,378,625
Premium arising on issue of equity shares	1,688,127	1,688,127
Expenses of issue of equity shares	(101,103)	(101,103)
Balance at 31 December 2011	**21,965,649**	**21,965,649**

25. Own shares held

	Group £
Balance at 1 January 2010, 31 December 2010 and 31 December 2011	**(690,191)**

26. Share option reserves

	Group £	Company £
Balance at 1 January 2010	379,886	379,886
Movement in the year	97,113	97,113
Balance at 31 December 2010	476,999	476,999
Movement in the year	127,537	127,537
Balance at 31 December 2011	**604,536**	**604,536**

27. Retained earnings

	Group £	Company £
Balance at 1 January 2010	(16,556,279)	(17,778,595)
Net loss for the year	(2,648,116)	(2,846,158)
Balance at 1 January 2011	(19,204,395)	(20,624,753)
Net loss for the year	(3,151,576)	(3,360,235)
Balance at 31 December 2011	**(22,355,971)**	**(23,984,988)**

28. Translation Reserve

	Group £
Balance at 1 January 2010	(228,114)
Exchange differences on translation of foreign operations	(66,140)
Balance at 1 January 2011	(294,254)
Exchange differences on translation of foreign operations	(34,104)
Balance at 31 December 2011	**(328,358)**

Notes to the Financial Statements continued

For the year ended 31 December 2011

29. Notes to the consolidated cash flow statement

	2011 £	2010 £
Operating loss for the year	**(3,499,499)**	(2,954,055)
Adjustments for:		
Depreciation of property, plant and equipment	**28,690**	26,017
Share-based payment expense	**127,537**	97,113
Operating cash flows before movements in working capital	**(3,343,272)**	(2,830,925)
(Increase)/decrease in inventories	**(100,654)**	20,164
(Increase) in receivables	**(116,848)**	(17,038)
Increase in payables	**65,255**	54,540
Cash reduced by operations	**(3,495,519)**	(2,773,259)
Income taxes received	**317,67/3**	479,328
Net cash outflow from operating activities	**(3,177,846)**	(2,293,931)

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

30. Operating lease arrangements

The Group as a lessee

	2011 £	2010 £
Minimum lease payments under operating leases recognised as an expense in the year	**101,514**	92,488

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

	2011 £	2010 £
Within one year	**83,977**	82,898
In the second to fifth years inclusive	**126,829**	232,766

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

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

The Company as a lessee

	2011 £	2010 £
Minimum lease payments under operating leases recognised as an expense in the year	**55,000**	55,000

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

	2011 £	2010 £
Within one year	**55,000**	55,000
In the second to fifth years inclusive	**121,458**	176,458

31. Contingent liabilities

Neither the Group nor the Company is aware of any contingent liabilities outstanding as at the date of this report (2010: none).

32. Share-based payments

Equity-settled share option scheme

The Company has a share option scheme for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of all the Company's shares on the date of grant. The vesting period is 3 years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

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

	2011		2010	
	Number of share options	**Weighted average exercise price (in £)**	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	**26,895,361**	**0.019**	9,028,550	0.023
Granted during the period	**5,750,000**	**0.010**	18,650,561	0.012
Forfeited during the period	**(2,046,889)**	**0.009**	(783,750)	0.009
Outstanding at the end of the period	**30,598,472**	**0.011**	26,895,361	0.019
Exercisable at the end of the period	**9,375,018**	**0.010**	3,784,900	0.013

The options outstanding at 31 December 2011 had a weighted average exercise price of £0.011 and a weighted average remaining contractual life of 95 months. In 2011, options were granted on 25 January, 28 March, 27 April and 27 July. The aggregate of the estimated fair values of those options is £64,095. In 2010, options were granted on 20 January, 7 July, 5 October and 21 December. The aggregate of the estimated fair values of the options on those dates is £104,118.

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

	2011	2010
Weighted average share price	**1.08p**	1.09p
Weighted average exercise price	**1.08p**	1.09p
Expected volatility	**383%**	101%
Expected life	**4 years**	4 years
Risk free rate	**0.50%**	0.49%
Expected dividend yield	**0%**	0%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 36 months. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total expenses of £128,859 and £97,113 related to equity-settled share-based payment transactions in 2011 and 2010 respectively.

Notes to the Financial Statements continued

For the year ended 31 December 2011

33. Related party transactions

	Company 2011 £	Company 2010 £
As at 1 January	**478,999**	381,886
Capital increase in respect of share based payments	**128,859**	97,113
As at 31 December	**607,858**	478,999

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

During the period, the Group and Company paid £nil (2010: £12,500) in respect of non-executive Director services, or any other related party transactions.

Group

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

Cyan Technology Limited

- 100% of the issued capital of the Company is held by Cyan Holdings plc.
- The Company is incorporated in England and has an accounting period co terminus with that of the Group.
- The principal activity of the Company is to provide a vehicle to market and sell the Groups' range of microcontrollers.
- The Company's results are consolidated into these accounts.

Cyan Asia Limited

- 100% of the issued capital of the Company is held by Cyan Holdings plc.
- The Company is incorporated in Hong Kong and has an accounting period co terminus with that of the Group.
- The principal activity of the Company is to provide a sales and marketing service for the Groups' range of microcontrollers in Asia.
- The Company's results are consolidated into these accounts.

Company

Transactions between the Company and its subsidiaries and associates are disclosed below.

	2011 £	2010 £
Loan to related parties		
Cyan Technology Limited	**21,635,166**	18,760,327
Cyan Asia Limited	**2,783,362**	2,318,097
	24,418,528	21,078,424

The balances due to Cyan Holdings plc do not carry an interest charge. Cyan Holdings plc makes a management charge for services rendered to Cyan Technology Limited. In the year to 31 December 2011 these amounted to £402,227 (2010: £346,209).

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