Annual Report
and Financial Statements 2007

cyan holdings plc

About Cyan

Based in Cambridge in the UK, Cyan Holdings plc is a fabless semiconductor company specialising in the development of applications solutions collectively known as Cy-*Solved*™ which are built upon the company's low powered, configurable eCOG1KG and eCOG1X microncontroller chips (MCU's).

Cy-*Solved*™ accelerates the design in of Cyan products by providing a ready to run solution that a customer can use to prototype and then easily modify using Cyan tools. This avoids competing at component level where margins are thin and only a few cents can determine the lowest successful bidder. A Cyan customer makes their own modification to a Cy-*Solved*™ solution resulting in a unique piece of application software, developed specifically by them, to provide them with an edge in their chosen markets. This can deliver dollars of value to the customer, a value that is only available when using Cyan MCU products.

Cy-*Solved*™ incorporates ready to go solutions, software stacks, applications examples, modular software based on easy to use APIs, evaluation boards and production hardware modules from partners, all pulled together through Cyan's free integrated development environment CyanIDE®.

Cy-*Solved*™ can be incorporated as-is into an application but also supports an ability to be easily customised – either way, giving users a head start on the road to market and in many cases removing the need to understand the underlying technology. This is a critical advantage in the Chinese market where the supplier undertakes a large proportion of product design as a part of the vendor selection process. With Cy-*Solved*™ Cyan Asia's distributors are all now equipped to quickly and easily provide customised solutions for each prospect thus enhancing Cyan's competitiveness in the fastest moving and most price sensitive of markets.

Currently available Cy-*Solved*™ applications include RF-*Solved*™, USB-*Solved*™, Ethernet-*Solved*™ and Motor Control-*Solved*™ all of which already allow Cyan to address a diverse range of markets including Automated Utility Metering, Remote Energy Metering, Asset Monitoring, White Goods, Security Systems, Industrial Controls and a wide range of Handheld Terminals. These markets can be directly addressed by Cyan during 2008 while additional Cy-*Solved*™ products, released during the year, will further extend the range of markets addressable by Cyan during 2009 and beyond.

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

Website: http://www.cyantechnology.com

Chairman's Statement

Dr John Read

- Restructuring phase completed
- New products and sales strategy implemented
- New manufacturing and marketing teams in place
- Restructuring and one of costs of £1,047k
- Operating Loss of £4,792k and Cash Balance of £4,080k in line with expectations

2007 has been a year of change for Cyan. The Group entered the year with a new range of products but without any notable sales traction. Since its inception Cyan has established a good track record of creating quality products, but it has struggled to match them with market needs. With this in mind the senior management of Cyan has been thoroughly restructured during the year, most significantly through the appointment of Kenn Lamb as CEO. The commercial experience that Kenn has brought to Cyan has been critical to repositioning the group so that it enters 2008 in a much stronger position.

Kenn identified two core problems with the Group's strategy. On the one hand there was a dogged persistence to compete at a component level with industry majors such as Texas Instruments and Renesas, while on the other, producing product which was technically excellent, but could not be manufactured at a cost customers were willing to pay for it.

Kenn has led the senior management of the Group in addressing these two core weaknesses head on and is in the process of executing a new business strategy that will offer the potential for the Group to enjoy sales penetration for the first time.

Inevitably the results that follow do not reflect the outcome of that strategy indeed the sales performance with a turnover of £33,000 (2006: £269,000) is indicative of the lack of sales penetration effected by the former strategy. We do however, expect to see the fruits of our restructuring efforts come through in the first half of 2008. In the same way the cost burden of 2007 which resulted in a loss before tax of £4,648,000 (2006: £3,009,000) is inflated by a number of one off restructuring costs, both in restructuring the management team and re-engineering the company's product range. These costs amounting to £1,047,000 (2006: nil) have been necessary in order to get the Group into a position where it can deliver sales and market penetration at the earliest possible opportunity.

We believe the Group has now faced up to the challenges that have held it back and enters 2008 in a strong position to succeed.

Other matters

During the year Mike Hughes (in October), Paul Barwick (in March) and Paul Johnson (in November) resigned from the board to pursue other interests. I would like to take this opportunity to thank all of them for the contribution they made to the Group and in particular for their contribution to the flotation of the business in 2005. Following the board changes, the Group entered 2008 seeking to strengthen the non executive team and I am pleased to welcome David Gutteridge to our board. David joined us with effect from 5 February 2008 and we look forward to benefiting from his experience.

In the Autumn, the new management team undertook a detailed review of progress on the sale of tax terminals in China through Pinnacle. Although by this stage it is clear that the Chinese tax terminal project is well underway in a number of provinces, with orders already having been placed, our conclusion is that Pinnacle has failed to gain any significant market traction. Accordingly the Group has written off the £157,780 debt due from Pinnacle in the accounts to 31 December 2007. We are aware that high expectations in previous years attached to the success of this contract. The Company's new strategy was in part developed in response to the lack of progress of the Tax Control opportunity, but the success of the new strategy is in no way dependent upon the success of the Tax Control opportunity. Management's view is that this write-off does not affect the prospects for the future direction of the company, which have been defined independent of the Tax Control market.

We appreciate that 2007 has been a difficult year for Cyan and a number of hard decisions have been necessary. However the board believe that having successfully completed the restructuring of the business, the Group enters 2008 in a much stronger position to succeed. I would like to finish by welcoming those new shareholders who joined us at the Placing in July and thanking our existing shareholders for their patience and support in 2007. I trust that we will all see the benefits of a reinvigorated group in a successful 2008.

Dr John Read
Chairman
27 March 2008

Chief Executive's Review of Operations

Kenn Lamb

"The company therefore enters 2008 having already started on the plan's second phase in which we expect to announce new product launches and to see early stage sales for products already released to market.
The new strategy is showing early and positive signs of traction."

When I joined the Group on 11 April last year, it was apparent that its future success would depend on a major reappraisal of the business strategy and further funds to implement that strategy. On completing that reappraisal, in July 2007 the group successfully closed a £5 million (net) fundraising so that it could execute our new strategic business plan. At the time of the Placing, the Group set out its goals and expectations, explaining that the plan would in total require eighteen months to execute, divided into three phases.

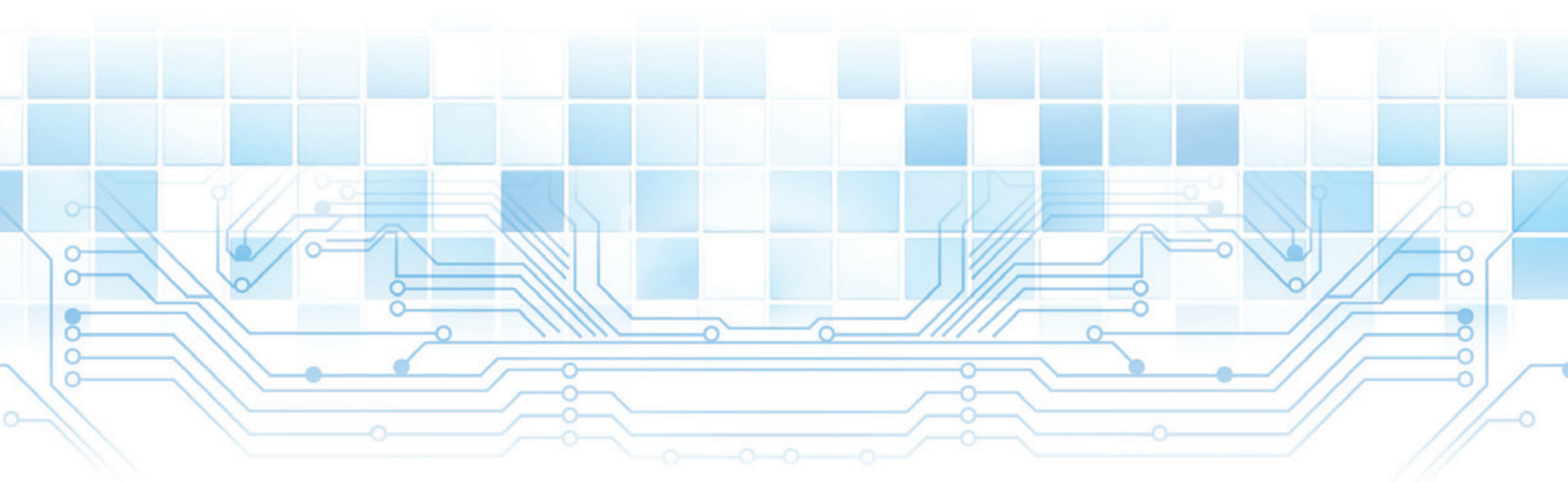
The first six months post fundraising were allocated to a restructuring of the Group to ensure that it possessed the skills, products, market position and partners necessary to deliver the second and third phases of the plan. That six month phase was up to 31 December 2007 and the board is pleased to report that all the targeted restructuring activities have been completed either on time, or ahead of expectations. Among the achievements of this first phase are:

- Establishing a completely new European sales team
- The creation and recruitment of an experienced operations team
- Expansion of the marketing team
- Significant investment in expanding the software development team
- A restructured Board of Directors.

Western Markets

For Western markets, Cyan has positioned itself to offer clients "end applications", not just MCUs. This means that Cyan now offers "user customisable application solutions" and not simply components to be used by customers in their designs. As we aim to compete at the application level, we look to work with partners to develop application solutions incorporating our feature rich configurable microcontrollers.

In consequence of this new strategy, Cyan has therefore concentrated on developing new partnerships. In addition to its already announced partnership with Adaptive Modules, a company active in the RF Module market, Cyan is moving forward with four further partnerships, of which two are at an advanced stage of negotiation, with a further two progressing well but at an earlier stage. These partnerships are intended to establish mutually profitable relationships with established



companies operating in all three global geographies (USA, Europe and Asia) who can offer Cyan a channel to market, and/or complementary technology. Negotiations will be concluded during the first half of 2008.

Application solutions comprise production quality application software running on production ready modules. Such modules are supplied by partners established in the relevant market segments. A particularly exciting development is the extension of CyanIDE so that it can offer system level design, rather than simply configuring the Cyan MCU. This new capability will support end user modification of the complete system, which in turn enables easy addition of additional market specific features required for an individual customer's products. The enhanced version of CyanIDE has been converted to a new open standard. It is already in Beta testing and will be released to all customers in Q2 08. The company is confident that the new feature rich CyanIDE software is set to become dominant in the industry.

To emphasise this new application level capability, we have completely overhauled our marketing and branding communications. The application solutions are now marketed under the Cy-*Solved* brand and this is prominent on the rebranded Cyan Technology web site which went live ahead of schedule in December 2007.

China and Asia

For Asian Markets, Cyan has a new entry level product which was released for new designs in Asia earlier this month. This device, available today, is less than half the cost of the previous lowest priced Cyan MCU and is pin and functionally compatible with a completely new device, the first of a new entry level family of MCUs, compatible with the existing eCOG1X family. These devices, which will be manufactured by a new foundry partner, achieve lower cost through production engineering techniques introduced by Cyan's new operations team. When released in production volumes in 2H08, they will reduce end user costs to one third of the lowest price previously available. Early indications are that Cyan now has the ability to meet the price aspirations for high volume design opportunities in China similar to those for which we have previously bid unsuccessfully.

Through new manufacturing partners in China, Cyan has reduced the end user cost for a development system by a factor of twenty. The consequence of this achievement is that for the first time, Cyan has its core development system priced at a cost easily within the budget of the smallest Chinese design business; management believes that this achievement has eliminated a significant barrier to securing new customers.

Looking Forward

The group enters 2008 with a range of new products, some of which have already been released and with others still in development. All such products have been costed to allow pricing that enables manufacture and sale in China at prices that are competitive in the Chinese market. As a direct result of this strategy change Cyan has already identified three separate opportunities each in excess of one million pieces. While initial margins will be lower than plan, we expect significant margin growth throughout the second half of 2008 as the full impact of our cost reduction strategy comes on stream.

In summary, the Group is pleased to announce that the first phase of the turn-around plan has been completed on schedule. The company therefore enters 2008 having already started on the plan's second phase, in which we expect to announce new product launches and to see early stage sales for product already released to the market.

The new strategy is showing early and positive signs of traction and management remain confident in their ability to deliver on this strategy.

2007 has been a year of transition for the Group which has meant a large number of substantial changes. These changes have been enthusiastically embraced by our staff and by my colleagues on the board. I want to finish by acknowledging the hard work of the Cyan team in bringing about the change in direction and the wholehearted support they have given me and the board in implementing our strategy.

Kenn Lamb
Chief Executive Officer
27 March 2008

Directors' Report

The Directors present their annual report on the affairs of the Group together with the audited financial statements and auditors report for the year ended 31 December 2007.

Principal activities and review of the business
The principal activity of the Group during the year was that of research and development of microcontroller chips and general purpose digital semiconductors and developing markets in which to sell them.

Enhanced Business Review
The year ended 31 December 2007 was a further year of considerable change for Cyan Holdings plc.

The radical overhaul in strategy, management and products has been the main feature of 2007. Inevitably it has resulted in a heavy additional cost burden during the year resulting in a loss of some £4,648,000 (2006: £3,009,000). However £1,047,000 of this cost is one off in nature and having incurred it, the group's ongoing cash consumption in 2008 is unlikely to be sustained at this level. As a result the average cash burn of 2007 being some £339,000 per month (2006: £230,000) is not representative of our cash burn expectations for 2008. The Directors believe that based on current rates of cash burn and expected revenues, the Group has sufficient funds for at least the next twelve months.

The fact is that the year to 31 December 2007 cannot be characterised in terms of the normal business of Cyan and as a result, the Directors are of the view that monitoring any other Key Performance Indicators based on these results, would not just be meaningless, but liable to be misleading. Accordingly none are presented with this report.

There are two major areas where, as a result of the restructuring of the Group, management have made judgements that impact on these accounts. The first relates to the product family. Whilst the new eCOG1X family that we reported on last year is clearly a technically excellent product, the fact is that it did not attract customers at a price we could afford to make it for. Accordingly the value of stock of these parts is being written down to net realisable value as has the stock of eCOG1K's which also have a net realisable value that in the board's view, is less than cost. As a result £147,090 has been written off stock values during the year.

Similarly, as you will have read in the Chairman's Statement, the Group has reappraised the likelihood of recovery of the debt due from Pinnacle, a Chinese customer for tax terminal products. As a result the whole of the uncollected debt, amounting to £157,780 has been written off during the year.

Whilst the management team has addressed the major issues that held back the company in 2007, our assessment of risks the Group is exposed to must take account of the transitional state of the business as we start 2008. There is a risk that the new iterations of our product range which we expect to bring on stream in the second half of 2008, will be delayed or that the market will not receive them well. There is a risk that no new partnerships will come on stream in Europe and that those already signed fail to produce significant revenues. There are the usual trading risks that the Group is exposed to by virtue of doing business in the Far East and the write off of the Pinnacle debt is a timely reminder of those risks. There are also currency trading risks relating to the US Dollar and the Euro, the currencies in which most business will be transacted when the Group starts to make volume sales. Finally as with any technology company, we are dependent for our success on a relatively small number of highly skilled staff, and there is a substantial business risk associated with our ability to retain these staff.

Going Concern
The Directors have prepared a business plan which has formed the basis on which they are satisfied that the Group has adequate financial resources to continue to operate for the next twelve months. This business plan assumes a certain level of sales, which the directors believe to be both achievable and the best estimate of the Group's future activities. However there is a risk that the actual level of sales achieved may be significantly lower than is assumed in that business plan. As noted in the Enhanced Business Review, there is a risk that new and existing partnerships may not lead to significant sales and that new iterations of the product range may not be received well by the market.

Having taken into account the above material uncertainties, the Directors consider it is appropriate that the financial statements should be prepared on a going concern basis. The conditions facing the Group nevertheless give rise to material uncertainties related to events or conditions which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Dividends
The Directors do not recommend the payment of a dividend (2006: £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 24. The company has one class of ordinary shares of 0.2 pence each, which carry no right to fixed income and represents 100% of the issued share capital of the company. Each share carries the right to one vote at general meetings of the company. The Group's capital structure consists only of issued share capital, which it manages to maximise the return to shareholders.

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

Details of the employee share schemes are set out in note 31.

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 10.

Under its Articles of Association and pursuant to authorities granted under the Companies Acts, the company has authority to issue ordinary shares of 0.2 pence each up to a nominal value of £400,000.

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

Executive Directors
Kenn Lamb (appointed 11 April 2007)
Andrew Lee
Paul Barwick (resigned 31 March 2007)
Dr Paul Johnson (resigned 15 November 2007)

Non-Executive Directors
Dr John Read (Chairman)
Professor Michael Hughes (resigned 3 October 2007)

On 5 February 2008, David Gutteridge was appointed to the board as a Non-Executive Director. Mr Gutteridge and Dr John Read are the members of the audit committee, nominations committee and remuneration committee. Dr John Read, Mr David Gutteridge and Mr Kenn Lamb retire at the next Annual General Meeting and, being eligible, offer themselves for re-election.

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

Research Design and Development
The Group is committed to the research, design and development of a range of microcontroller chips and general purpose semiconductors. The costs relating to this which have been written off in the year amounted to £619,392 (2006: £421,115).

Articles of Association
As a result of changes to company law introduced by the Companies Act 2006, Cyan is proposing to adopt new articles of association compliant with the Act at the Annual General Meeting. Your attention is drawn to the relevant resolution on page 39 of this Annual Report and explanatory note on page 40.

Significant Holdings

In addition to the Directors interests shown in the remuneration committee report on page 11 the company had been notified in accordance with chapter 5 of the Disclosures and Transparency rules of the following voting rights as a shareholder in the company at 3 March 2008:

	Percentage of voting rights and issued share capital	Number of ordinary shares	Nature of holding
Helium Special Situations Fund	14.4%	20,100,000	Direct
P. Johnson	11.7%	16,295,454	Indirect
P. Lobbenberg	6.6%	9,200,000	Combined
Artemis AIM VCT2 plc	3.1%	4,272,727	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 17 to the accounts.

Supplier payment policy

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

Charitable and political donations

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

Auditors

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

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

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

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

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

Andrew Lee
Finance Director
27 March 2008

Board of Directors

Kenn Lamb
Chief Executive Officer
(aged 49)

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

In the early 90's Kenn established the European operation for Comdisco Systems Inc, an EDA software tool business with products that became widely used in the development of the European GSM network. This company was subsequently acquired by Cadence Design Systems Inc one of the three leading EDA tool vendors. Recruited from Cadence to Actel, a Fabless Semiconductor Company where growth had stalled, Kenn rebuilt the European team, personally running UK, German and French subsidiaries where he quadrupled sales revenues in two years.

In 2001 Kenn was the CEO founder of Elixent, a semiconductor IP company and completed a successful sale of this business to Matsushita (Japan) in 2006. Prior to Elixent Kenn was senior vice president sales at ARC International plc where he managed the restructuring of its international sales team, turning the business from a decline in sales, through two years of quarter on quarter growth, to a successful London Stock Exchange flotation in September 2000, which achieved a market capitalisation of £500M. Kenn joined the board of Cyan in April 2007 to manage the implementation of a new product and go-to-market strategy and a restructuring of the business.

Andrew Lee
Group Finance Director
(aged 48)

A graduate of University College London, Andrew joined Dr Paul Johnson as a founder of Cyan Holdings plc in February 2003 and joined the Board of the Company on 3 November 2003. He is a Chartered Accountant with a wide range of experience in managing early stage entrepreneurial businesses. For 8 years he worked with Ernst and Young working as a senior manager in Cambridge and Australia. In 1993 he was responsible for setting up and running the Vietnamese practice. Appointed UK Group Finance Director for publishing and distribution group Hachette in 1994, he was given responsibility for restructuring the UK based businesses. The turnaround was successfully completed within two years, restoring the business to profit. Andrew left to form his own consulting business. He has spent the last 14 years working on setting up entrepreneurial businesses and fund raising, and managing exit strategies for them. Andrew was a co founder of The Library House Limited and served as a director from its inception in 2001 until 2006.

Dr John Read
Non-Executive Chairman
(aged 66)

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 on November 2005 and was appointed Chairman in October 2007.

Corporate Governance Statement

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

There is a clear division of responsibility between the Chairman and the Chief Executive. At 31 December 2007 the Board comprised three Directors, one of whom was an independent Non-Executive Director. The Non-Executive Director does not have any day-to-day involvement in the running of the business. The Board announced on 5 February 2008 the appointment of Mr David Gutteridge as a second independent Non-Executive Director. The Board is responsible for overall strategy, the policy and decision making framework in which this strategy is implemented, approval of budgets, monitoring performance, and risk management. The Board meets at regular scheduled intervals and follows a formal agenda; it also meets as and when required.

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

Board Committees
The Company has an Audit Committee and a Remuneration Committee each consisting of both of the Non-Executive Directors.

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

Remuneration Committee Report

Remuneration Committee

The company has established a Remuneration Committee. The members of the Committee during 2007 were Dr John Read and Professor Michael Hughes until the date of his resignation. Both directors are independent non-executive directors and the Committee was chaired by Professor Michael Hughes until his resignation and then by Dr John Read.

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

In determining the directors' remuneration for the year, the Committee consulted Mr Kenn Lamb (Chief Executive) and Mr Andrew Lee (Finance Director) about its proposals.

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 and 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. Incentive payments for the year ended 31 December 2007 varied between 25 per cent and 67 per cent. This reflects the success of the company in raising the funds essential to being able to pursue its business objectives. In addition the Committee has the power to grant bonuses at its discretion.

Remuneration Committee Report

Share options
During the year ended 31 December 2007 following notification in the circular to the shareholders for the Extraordinary General Meeting on 24 August 2007, the company has commenced work on setting up an Employee Benefit Trust. This trust had not been put in place as at 31 December 2007.

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 (6.25 pence on 31 December 2007) has recovered to the 22 pence level at which investors subscribed at the I.P.O. in December 2005.

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 executive's gross salary.

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

Dr John Read who is also proposed for re-election, being a non-executive director, does not have a service contract. The details of the directors' contracts are summarised in the table below:

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

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

Professor Michael Hughes	£36,325
Dr. John Read	£36,600

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 bonus £	2007 total £	2006 total £
Executive						
Kenn Lamb	108,564	14,259	–	100,000	222,823	–
Andrew Lee	100,000	–	–	25,000	125,000	81,075
Paul Johnson	127,144	1,053	211,000	–	339,197	125,000
Paul Barwick	25,000	50	127,119	–	152,169	100,000
Non Executive						
Dr. John Read	36,600	–	–	–	36,600	25,000
Prof. Michael Hughes	36,325	16,482	12,500	–	65,307	50,000

No fees were paid to third parties in respect of directors' services

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. Details of the options exercised during the year are as follows:

Remuneration Committee Report

Name of director	Scheme	Number of options	Exercise price	Market price at exercise date	Gains on exercise 2007	Gains on exercise 2006
Prof Michael Hughes	Unapproved	400,000	£0.002	£0.1025	40,200	–
Paul Barwick	EMI	691,500	£0.10	£0.145	31,118	–

Details of options for directors who served during the year are as follows:

Name of director	Scheme	1 January 2007	Granted	Exercised	31 December 2007*	Exercise price	Date from which exercisable	Expiry date
Paul Barwick	Unapproved	2,000,000	–	–	2,000,000	£0.002	30/11/2005	7/12/2010

* or date of cessation of appointment, if earlier.

There have been no variations to the terms and conditions or performance criteria for share options during the financial year.

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

The market price of the ordinary shares at 31 December 2007 was £0.0625 and the range during the year was £0.225 to £0.0625.

Directors' Shareholdings in the Company

The interests in shares of the company of the serving directors at 31 December 2007 were:

	2007 Number of ordinary shares	2007 %	2006 Number of ordinary shares	2006 %
Kenn Lamb	–	–	–	–
Andrew Lee	2,045,454[1]	1.47%	2,045,454	2.42%
Dr John Read	113,636	0.08%	113,636	0.13%

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

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

Name of director	2007 £	2006 £
Kenn Lamb	5,229	–
Andrew Lee	5,000	–
Paul Johnson	11,458	–
Paul Barwick	6,250	–

Approval

This report was approved by the board of directors on 27 March 2008 and signed on its behalf by:

John Read
27 March 2008

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs) and have also elected to prepare financial statements for the company in accordance with IFRSs. Company law requires the directors to prepare such financial statements in accordance with IFRSs, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- 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.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and 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 company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

No reference is made to the going concern basis here due to the inclusion of a separate going concern statement by the directors elsewhere in the annual report.

Directors' responsibility statement
We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the company and the undertakings included in the consolidation taken as a whole; and
- the directors' report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

Chief Executive
Kenn Lamb
27 March 2008

Finance Director
Andrew Lee
27 March 2008

Independent Auditors' Report to the Members of Cyan Holdings plc

We have audited the group and parent company financial statements (the 'financial statements') of Cyan Holdings plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated and individual company balance sheets, the consolidated and individual company cash flow statements, the consolidated and individual company statement of recognised income and expense, and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements.

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of the group's loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007.
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

Separate opinion in relation to IFRSs

As explained in Note 4 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the group's affairs as at 31 December 2007 and of its loss for the year then ended.

Emphasis of matter – going concern

Without qualifying our opinion, we draw attention to the disclosures made in note 4 of the financial statements concerning the company's ability to continue as a going concern. The company incurred a net loss of £4,287,626 during the year ended 31 December 2007 and, as of that date, the company's cash balance was £4,079,534. 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, which assumes a certain level of sales. There is a risk that the actual level of sales achieved is significantly lower than is assumed in that business plan. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern. In the event the Group ceased to be a going concern, the adjustments would include writing down the carrying value of assets to their recoverable amount and providing for any further liabilities that might arise.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Cambridge, United Kingdom
27 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 £	2006 £
Continuing Operations			
Revenue	6	32,596	269,333
Cost of sales		(26,934)	(205,776)
Gross profit		5,662	63,557
Administrative expenses		(3,728,792)	(3,080,863)
Other operating expenses		(21,903)	(173,529)
Restructuring and non-recurring costs	8	(1,047,267)	–
Operating loss		(4,792,300)	(3,190,835)
Investment revenues	6,12	144,795	182,216
Finance costs	13	(121)	(227)
Loss before tax		(4,647,626)	(3,008,846)
Tax	14	360,000	475,557
Loss for the period attributable to equity holders of the parent		(4,287,626)	(2,533,289)
Loss per share (pence)			
Basic	15	(4.0)	(3.0)
Diluted	15	(4.0)	(3.0)

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2007

	2007 £	2006 £
Exchange differences on translation of foreign operations	31,876	26,209
Net income recognised directly in equity	31,876	26,209
Loss for the period	(4,287,626)	(2,533,289)
Total recognised income and expense for the period attributable to equity holders of the parent	(4,255,750)	(2,507,080)

Company Statement of Recognised Income and Expense

	2007 £	2006 £
Exchange differences on translation of foreign operations	–	–
Net income recognised directly in equity	–	–
Profit for the period	146,592	151,647
Total recognised income and expense for the period attributable to equity holders of the parent	146,592	151,647

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 £	2006 £
Non-current assets			
Intangible assets	16	28,792	57,586
Property, plant and equipment	17	96,680	78,663
		125,472	136,249
Current assets			
Inventories	19	180,240	107,922
Trade and other receivables	20	503,225	520,942
Cash and cash equivalents	20	4,079,534	2,820,801
		4,762,999	3,449,665
Total assets		4,888,471	3,585,914
Current liabilities			
Trade and other payables	23	704,223	249,662
		704,223	249,662
Non-current liabilities		–	–
Total liabilities		704,223	249,662
Net assets		4,184,248	3,336,252
EQUITY			
Share capital	24	279,252	170,070
Share premium account	25	13,600,291	8,627,630
Share option reserves	26	209,398	187,495
Retained earnings	27	(9,904,693)	(5,648,943)
Total equity being equity attributable to equity holders of the parent		4,184,248	3,336,252

The financial statements were approved by the board of directors and authorised for issue on 27 March 2008. They were signed on its behalf by:

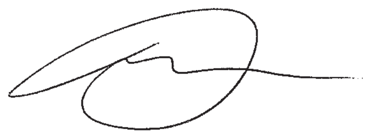
Andrew Lee
Director

Company Balance Sheet

At 31 December 2007

	Notes	2007 £	2006 £
Non-current assets			
Investments in subsidiaries	18	211,398	189,495
Intangible assets	16	28,792	57,586
		240,190	247,081
Current assets			
Loans to other Group entities	32	10,139,824	6,233,061
Trade and other receivables	20	49,895	35,406
Cash and cash equivalents	20	4,046,371	2,726,640
		14,236,090	8,995,107
Total assets		14,476,280	9,242,188
Current liabilities			
Trade and other payables	23	30,576	46,822
Loans from other Group entities		2,000	2,000
		32,576	48,822
Total liabilities		32,576	48,822
Net assets		14,443,704	9,193,366
EQUITY			
Share capital	24	279,252	170,070
Share premium account	25	13,600,291	8,627,630
Share option reserve	26	209,398	187,495
Retained earnings	27	354,763	208,171
Total equity		14,443,704	9,193,366

The financial statements were approved by the board of directors and authorised for issue on 27 March 2008. They were signed on its behalf by:



Andrew Lee
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 £	2006 £
Net cash from operating activities	28	(3,927,362)	(2,939,992)
Investing activities			
Interest received		144,795	182,216
Purchases of property, plant and equipment		(73,426)	(48,542)
Net cash used in investing activities		71,369	133,674
Financing activities			
Interest paid		(121)	(227)
Proceeds on issue of shares		5,081,843	30,849
Net cash from financing activities		5,081,722	30,622
Net increase/(decrease) in cash and cash equivalents		1,225,729	(2,775,696)
Cash and cash equivalents at beginning of year		2,820,801	5,567,680
Effect of foreign exchange rate changes		33,004	28,817
Cash and cash equivalents at end of year		4,079,534	2,820,801

Company Cash Flow Statement

For the year ended 31 December 2007

	2007 £	2006 £
Profit for the year	146,592	151,647
Adjustment for amortisation of intangible assets	28,794	32,793
Operating cash flows before movement in working capital	175,386	184,440
Increase in receivables	(3,921,252)	(2,860,911)
Decrease in payables	(16,246)	(155,144)
Cash reduced by operations	(3,762,112)	(2,831,615)
Net cash from operating activities	(3,762,112)	(2,831,615)
Financing activities		
Proceeds on issue of new ordinary shares	5,081,843	30,849
Net cash from financing activities	5,081,843	30,849
Net increase/(decrease) in cash and cash equivalents	1,319,731	(2,800,766)
Cash and cash equivalents at beginning of year	2,726,640	5,527,406
Cash and cash equivalents at end of year	4,046,371	2,726,640

Notes to the Financial Statements

For the year ended 31 December 2007

1. GENERAL INFORMATION

Cyan Holdings plc is a company incorporated in the United Kingdom under the Companies Act 1985. 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 Directors' Report on page 6.

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 4.

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 *Presentation of Financial Statements*. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 4). Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*; IFRIC 8 Scope of IFRS 2; IFRIC 9 *Reassessment of Embedded Derivatives*; and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

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:

IFRS 8	*Operating segments*
IFRIC 12	*Service Concession Arrangements*
IFRIC 14	*IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
IAS 23	(Revised) Borrowing Costs
IFRIC II	IFRS2 Group and treasury share transactions
IFRIC 13	Customer loyalty programmes

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009.

3. REPORTING UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The commentary below highlights the key changes that have arisen due to the transition from reporting under UK GAAP to reporting under IFRS. The Group's date of transition to IFRS is 1 January 2006, which is the beginning of the comparative period for the 2007 financial year. Therefore the opening balance sheet for IFRS purposes is that reported at 1 January 2006 as amended for changes due to IFRS.

This annual report is the first to be prepared under IFRS. The comparative figures have been prepared on the same basis and are therefore restated from those previously reported under UK GAAP. To help understand the impact of the transition, reconciliations have been produced to show the changes made to statements previously reported under UK GAAP in arriving at the equivalent statements under IFRS. The following are the three reconciliations which are included in this Appendix.

1. Consolidated income statement for the year ended 31 December 2006
2. Consolidated balance sheet at 31 December 2006
3. Consolidated balance sheet at 1 January 2006.

The income statement for the year to 31 December 2007 and the balance sheet at that date are reported under IFRS. As they have not previously been reported under UK GAAP no reconciliation to IFRS is required.

The net effect on the reported results of presenting the 2006 full year financial statements under IFRS rather than UK GAAP is £Nil. The changes have no impact on the cash flows previously reported. The key areas of change are outlined below.

First time adoption

IFRS 1 "First Time Adoption of International Reporting Standards" sets out the approach to be followed when IFRS is applied for the first time. As a general principle, IFRS 1 requires that accounting policies are to be applied retrospectively although IFRS 1 provides a number of optional exceptions where the cost of compliance is deemed to exceed the benefits to users of the financial statements. Where applicable, the options selected by management under IFRS 1 are set out in the explanatory notes below.

The reclassification between property, plant and equipment and intangible assets relates to software assets. The reclassification of treasury deposits to cash and cash equivalents has been made as these deposits meet the IFRS definition of cash.

Notes to the Financial Statements

For the year ended 31 December 2007

3. REPORTING UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

Research and development

No adjustment is required in respect of research and development expense.

Cumulative translation differences

Translation differences arise from the consolidation of the results of foreign operations at the average rate and the balance sheet at the year-end rate of exchange. UK GAAP does not require these translation differences to be separately identified and accounted for in subsequent disposal of foreign operations. Under IFRS the translation differences arising are separately recorded in equity, net of movements on related hedging instruments.

RECONCILIATION OF THE CONSOLIDATED INCOME SHEET FOR THE YEAR ENDED 31 DECEMBER 2006

There have been no changes in the reporting of the income statement for the year to 31 December 2006 of either the Company or the Group as a result of the move to reporting under IFRS from UK GAAP.

RECONCILIATION OF THE COMPANY BALANCE SHEET AS AT 31 DECEMBER 2006

	Under UK GAAP £	Reclassifications £	Under IFRS £
Non current assets			
Intangible assets	–	57,586	57,586
Property, plant and equipment	57,586	(57,586)	–
Investments	189,495	–	189,495
	247,081	–	247,081
Current assets			
Trade and other receivables	6,268,467	–	6,268,467
Treasury deposits	2,625,000	(2,625,000)	–
Cash and cash equivalents	101,640	2,625,000	2,726,640
	8,995,107	–	8,995,107
Total assets	9,242,188	–	9,242,188
Current liabilities	(48,822)	–	(48,822)
Net current assets	8,946,285	–	8,946,285
Net assets	9,193,366	–	9,193,366
Equity			
Share capital	170,070	–	170,070
Share premium	8,627,630	–	8,627,630
Retained earnings	208,171	–	208,171
Share based compensation	187,495	–	187,495
Total equity	9,193,366	–	9,193,366

Notes to the Financial Statements

For the year ended 31 December 2007

3. REPORTING UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

RECONCILIATION OF THE COMPANY BALANCE SHEET AS AT 1 JANUARY 2006

	Under UK GAAP £	Reclassifications £	Under IFRS £
Non current assets			
Intangible assets	4,000	86,378	90,378
Property, plant and equipment	86,378	(86,378)	–
Investments	15,966	–	15,966
	106,344	–	106,344
Current assets			
Trade and other receivables	3,407,557	–	3,407,557
Treasury deposits	5,375,000	(5,375,000)	–
Cash and cash equivalents	152,406	5,375,000	5,527,406
	8,934,963	–	8,934,963
Total assets	9,041,307	–	9,041,307
Current liabilities	(203,966)	–	(203,966)
Net current assets	8,730,997	–	8,730,997
Net assets	8,837,341	–	8,837,341
Equity			
Share capital	168,621	–	168,621
Share premium	8,598,230	–	8,598,230
Retained loss	56,524	–	56,524
Share based compensation	13,966	–	13,966
Total equity	8,837,341	–	8,837,341

RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

	Under UK GAAP £	Reclassifications £	Under IFRS £
Non current assets			
Intangible assets	–	57,586	57,586
Property, plant and equipment	136,249	(57,586)	78,663
	136,249	–	136,249
Current assets			
Inventory	107,922	–	107,922
Trade and other receivables	520,942	–	520,942
Treasury deposits	2,625,000	(2,625,000)	–
Cash and cash equivalents	195,801	2,625,000	2,820,801
	3,449,665	–	3,449,665
Total assets	3,585,914	–	3,585,914
Current liabilities	(249,662)	–	(249,662)
Net current assets	3,200,003	–	3,200,003
Net assets	3,336,252	–	3,336,252
Equity			
Share capital	170,070	–	170,070
Share premium	8,627,630	–	8,627,630
Retained loss	(5,648,943)	–	(5,648,943)
Share based compensation	187,495	–	187,495
Total equity	3,336,252	–	3,336,252

Notes to the Financial Statements

For the year ended 31 December 2007

3. REPORTING UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET AS AT 1 JANUARY 2006

	Under UK GAAP £	Reclassifications £	Under IFRS £
Non current assets			
Intangible assets	4,000	86,586	90,586
Property, plant and equipment	163,236	(86,586)	76,650
	167,236	–	167,236
Current assets			
Inventory	59,583	–	59,583
Trade and other receivables	182,560	–	182,560
Treasury deposits	5,375,000	(5,375,000)	–
Cash and cash equivalents	192,680	5,375,000	5,567,680
	5,809,823	–	5,809,823
Total assets	5,977,059	–	5,977,059
Current liabilities	(338,105)	–	(338,105)
Net current assets	5,471,718	–	5,471,718
Net assets	5,638,954	–	5,638,954
Equity			
Share capital	168,621	–	168,621
Share premium	8,598,230	–	8,598,230
Retained loss	(3,141,863)	–	(3,141,863)
Share based compensation	13,966	–	13,966
Total equity	5,638,954	–	5,638,954

4. SIGNIFICANT ACCOUNTING POLICIES

Group

Basis of accounting and going concern

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, except for the revaluation of certain properties and the financial instruments. The principal accounting policies adopted are set out below.

The Directors have prepared a business plan which has formed the basis on which they are satisfied that the Group has adequate financial resources to continue to operate for the next twelve months. This business plan assumes a certain level of sales, which the Directors believe to be both achievable and the best estimate of the Group's future activities. However there is a risk that the actual level of sales achieved may be significantly lower than is assumed in that business plan. As noted in the Enhanced Business Review, there is a risk that new and existing partnerships may not lead to significant sales and that new iterations of the product range may not be received well by the market.

Having taken into account the above material uncertainties, the Directors consider it is appropriate that the financial statements should be prepared on a going concern basis. The conditions facing the Group nevertheless give rise to material uncertainties related to events or conditions which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern. In the event the Group ceased to be a going concern, the adjustments would include writing down the carrying value of assets to their recoverable amount and providing for any further liabilities that might arise.

Basis of consolidation

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

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

Notes to the Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

Sales of goods are recognised when the risks and rewards of ownership are transferred.

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

Leasing

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

Foreign currencies

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

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

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

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

Operating profit

Operating profit is stated after charging restructuring costs but before investment income and finance costs.

Retirement benefit costs

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

Taxation

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

Notes to the Financial Statements
For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Cash and cash equivalents

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

Financial liabilities

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

Other financial liabilities

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

Provisions

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

Share-based payments

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

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

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

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

Company

The separate financial statements of the company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

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 profit for the year dealt with in the financial statements of the company was £146,592 (2006: £151,647). As permitted by section 230 of the Companies Act 1985, no separate income statement is presented in respect of the parent company.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, 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.

Notes to the Financial Statements

For the year ended 31 December 2007

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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 written £147,090 (2006: £Nil) off the value of stock at 31 December 2007 to reflect the amount they believe is the net realisable value of that stock.
- The directors have written off the full balance outstanding from Pinnacle, amounting to £157,780 as they believe the debt to be irrecoverable.

6. REVENUE

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

	Year ended 2007 £	Year ended 2006 £
Continuing operations		
Sale of goods	32,596	269,333
Other operating income	–	–
Investment income	144,795	182,216
Total Revenue	177,391	451,549

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group comprises only one business and one geographical segment as defined by IAS 14. Accordingly no segmental analysis is presented.

8. RESTRUCTURING AND NON-RECURRING COSTS

During the latter half of 2007 the group undertook a radical restructuring of its senior management and product portfolio. As a result the Group has incurred a number of restructuring and other non-recurring costs as itemised below:

Restructuring

	Year ended 2007 £	Year ended 2006 £
Impairment loss recognised in respect of assets	147,090	–
Compensation for loss of office	350,619	–
Cost of senior management time in respect of restructuring	104,000	–
Costs to commercialise product range	287,778	–
	889,487	–
Non-recurring costs		
Write off of bad debt	157,780	–
	1,047,267	–

9. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2007 £	2006 £
Net foreign exchange losses	54,560	45,316
Research and development costs	619,392	421,115
Depreciation of property, plant and equipment	54,282	44,129
Amortisation of intangible assets	28,794	28,792
Write-downs of inventories recognised as an expense	147,090	–
Staff costs (see note 11)	2,348,159	1,821,630
Impairment loss recognised on trade receivables	157,780	–

Notes to the Financial Statements

For the year ended 31 December 2007

10. AUDITORS' REMUNERATION

The analysis of auditors' remuneration is as follows:

	2007 £	2006 £
Fees payable to the company's auditors for the audit of the company's annual accounts	14,200	16,100
Fees payable to the company's auditors and their associates for the other services to the group		
– The audit of the company's subsidiaries pursuant to legislation	10,000	12,000
Total audit fees	24,200	28,100
– Tax services	5,500	5,500
– other services pursuant to legislation	9,000	–
Total non-audit fees	14,500	5,500

11. STAFF COSTS

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

	2007 Number	2006 Number
Sales and administration	21	22
Research and development	21	17
	42	39

	2007 £	2006 £
Their aggregate remuneration comprised:		
Wages and salaries	2,006,271	1,642,960
Social security costs	272,493	178,670
Other pension costs	69,395	–
	2,348,159	1,821,630

12. INVESTMENT REVENUE

	2007 £	2006 £
Interest revenue:		
Bank deposits	144,795	182,216

Investment revenue is all earned on cash and cash equivalents.

13. FINANCE COSTS

	2007 £	2006 £
Interest on bank overdrafts and loans	121	227

Notes to the Financial Statements

For the year ended 31 December 2007

14. TAX

	2007 £	2006 £
Current tax	360,000	475,557
Deferred tax (note 22)	–	–
	360,000	475,557

Corporation tax is calculated at 20 per cent (2006: 19 per cent) of the estimated assessable loss 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:

	2007 £	2006 £
Loss before tax	(4,647,626)	(3,008,846)
At standard rate of 20% (2006 – 19%)	(929,525)	(571,681)
Effects of:		
Tax effect of non deductible expenses	4,205	2,850
Tax effect of other unrecognised temporary differences	14,410	12,196
Tax effect of share option treatments	(2,806)	27,271
Tax effect of unrecognised losses	615,039	308,692
Tax effect of research and development treatment	(61,323)	(58,072)
Prior year adjustment	–	(196,813)
Actual current tax credit in the year	(360,000)	(475,557)

15. EARNING PER SHARE

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

Earnings

	2007 £	2006 £
Earnings for the purposes of basic earnings per share being net loss attributable to equity holders of the parent	4,287,626	2,533,289

Number of shares

	Year ended 2007	Year ended 2006
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	107,962,482	84,814,709

Notes to the Financial Statements

For the year ended 31 December 2007

16. INTANGIBLE ASSETS

No intangible assets are held at valuation in these accounts.

	SOFTWARE GROUP £	SOFTWARE COMPANY £
COST		
At 1 January 2006	143,964	143,964
Additions	–	–
Exchange differences	–	–
Disposals	–	–
At 1 January 2007	143,964	143,964
Additions	–	–
Exchanges differences	–	–
At 31 December 2007	143,964	143,964
AMORTISATION		
At 1 January 2006	57,586	57,586
Charge for the year	28,792	28,792
Impairment loss	–	–
Exchange differences	–	–
Eliminated on disposals	–	–
At 1 January 2007	86,378	86,378
Charge for the year	28,794	28,794
Impairment loss	–	–
Exchange differences	–	–
At 31 December 2007	115,172	115,172
CARRYING AMOUNT		
At 31 December 2006	57,586	57,586
At 31 December 2007	28,792	28,792

Notes to the Financial Statements

For the year ended 31 December 2007

17. PROPERTY, PLANT AND EQUIPMENT

No assets are held at valuation in these accounts.

	GROUP Fixtures and equipment £
COST	
At 1 January 2006	123,629
Additions	48,542
Exchange differences	(3,193)
Disposals	–
At 1 January 2007	168,978
Additions	73,426
Exchanges differences	(2,060)
At 31 December 2007	240,344
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
At 1 January 2006	46,771
Charge for the year	44,129
Impairment loss	–
Exchange differences	(585)
Eliminated on disposals	–
At 1 January 2007	90,315
Charge for the year	54,282
Impairment loss	–
Exchange differences	(933)
At 31 December 2007	143,664
CARRYING AMOUNT	
At 31 December 2006	78,663
At 31 December 2007	96,680

At 31 December 2007 the group had no contractual commitments outstanding for the acquisition of property, plant and equipment. The Company has no property, plant and equipment.

18. SUBSIDIARIES

A list of the significant investments in subsidiaries, including the name, country of incorporation, proportion of ownership interest is given in note 32.

19. INVENTORIES

Group

	2007 £	2006 £
Finished goods at cost	327,330	107,922
Provision for impairment	(147,090)	–
	180,240	107,922

As explained in the Enhanced Business Review an impairment charge has been made to reduce the value of inventories to the board's estimate of net realisable value. The Company holds no inventories.

Notes to the Financial Statements

For the year ended 31 December 2007

20. OTHER 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 £4,080,835 (2006: £2,985,363). Those of the Company include loans and cash and cash equivalents and total £12,866,464 (2006: £8,959,701).

Trade and other receivables

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Amount receivable for the sale of goods	1,301	164,562	–	–
Other debtors	426,780	306,672	16,397	9,561
Prepayments	75,144	49,708	33,498	25,845
	503,225	520,942	49,895	35,406

During the year an amount of £157,780 was written off the value of the carrying amount of trade and other receivables (2006: £NIL).

The directors consider that the carrying amount of trade and other receivables at 31 December 2007 approximates to their fair value.

Amounts receivable from Group Undertakings are shown in note 32.

Cash and cash equivalents

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Cash and cash equivalents	4,079,534	2,820,801	4,046,371	2,726,640

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

21. 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 2007 or 31 December 2006 and consequently no sensitivity analysis is presented.

Credit risk

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

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

At 31 December 2007 the Group had no significant concentration of credit risk, with exposure being both small in quantum and spread over a large number of counterparties and customers.

Included in the Group's trade receivables balance are debtors with a carrying amount of £115 (2006: £161,487) which are past due at the reporting date and not impaired. £nil is 0 – 90 days overdue (2006: £2,459) and £115 is over 90 days overdue (2006: £159,028); the remaining balance is not yet due. There was no allowance for doubtful debts at 31 December 2007 (2006: £nil). The bad debt charge for the year was £157,780 (2006: £nil). All of the Company's receivables are with other Group companies, are not impaired and are not yet due. 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 23.

Notes to the Financial Statements

For the year ended 31 December 2007

22. DEFERRED TAX

No deferred tax assets or liabilities have been recognised by the Group in the current or prior reporting period. At the balance sheet date an unrecognised deferred tax asset relating to tax losses and accelerated capital allowances of £1.4m (2006: £0.8m) existed. No deferred tax asset has been recognised due to the unpredictability and uncertainty of future profit streams.

23. 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 £414,281 (2006: £149,748) and those of the Company totalled £14,077 (2006: £14,577).

Trade and other payables

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Trade creditors and accruals	704,223	249,662	30,576	46,822

Trade creditors and accruals principally comprise amounts outstanding for trade purchase and ongoing costs all of which are payable within a year. The average credit period taken for trade purchases is 32 days (2006: 19 days). The Group has no incurred interest charges for late payment of invoices during the period. The Group has financial risk management policies in place to ensure that all payables are paid within agreed credit timeframes. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cashflows.

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

All of the Group's and the Company's trade payables are due within 3 months. The Group's operating lease commitments are shown within note 29.

24. SHARE CAPITAL

	2007 number	2006 number
Authorised:		
Ordinary shares of 0.2 pence each	200,000,000	150,000,000

	2007 £	2006 £
Issued and fully paid:		
139,626,314 (2006: 85,034,814) ordinary shares of 0.2 pence each	279,252	170,070

On 24 August 2007 the company completed a placing as a result of which 53,300,000 ordinary shares of 0.2 pence each were issued at a price of 10 pence per share to raise £5 m after expenses. The funds were raised to develop and execute on the group's new strategy. A further 1,291,500 shares (2006: 724,065) were issued as a result of the exercise of share options.

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

In addition to the share capital in issue disclosed above, at 31 December 2007 there also existed warrants which are detailed below.

Type	Number	Exercise Price	
C Warrants	43,595	£0.002	Date of grant to 31/12/2008

At 5pm on 31 December 2007 the 12,614,020 outstanding B warrants to buy shares at 25 pence per share and 183,070 E warrants to buy shares at US$0.4675 per share, lapsed.

Unapproved share options

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

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

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

See note 31 for further details relating to share options.

Notes to the Financial Statements

For the year ended 31 December 2007

25. SHARE PREMIUM ACCOUNT

	Group £	Company £
Balance at 1 January 2006	8,598,230	8,598,230
Premium arising on issue of equity shares	29,400	29,400
Expenses of issue of equity shares	–	–
Balance at 31 December 2006	8,627,630	8,627,630
Balance at 1 January 2007	8,627,630	8,627,630
Premium arising on issue of equity shares	5,315,767	5,315,767
Expenses of issue of equity shares	(343,106)	(343,106)
Balance at 31 December 2007	13,600,291	13,600,291

26. SHARE OPTION RESERVES

	Group £	Company £
Balance at 1 January 2006	–	–
Movement in the year	187,495	187,495
Balance at 31 December 2006	187,495	187,495
Balance at 1 January 2007	187,495	187,495
Movement in the year	21,903	21,903
Balance at 31 December 2007	209,398	209,398

27. RETAINED EARNINGS

	Group £	Company £
Balance at 1 January 2006	(3,141,863)	56,524
Dividends paid	–	–
Net (loss)/profit for the year	(2,507,080)	151,647
Balance at 1 January 2007	(5,648,943)	208,171
Dividends paid	–	–
Net (loss)/profit for the year	(4,255,750)	146,592
Balance at 31 December 2007	(9,904,693)	354,763

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2007 £	2006 £
Operating loss for the year	(4,792,300)	(3,190,835)
Adjustments for:		
Depreciation of property, plant and equipment	54,282	44,129
Amortisation of intangible assets	28,794	32,792
Share-based payment expense	21,903	173,529
Operating cash flows before movements in working capital	(4,687,321)	(2,940,385)
Increase in inventories	(72,318)	(48,339)
Decrease/(increase) in receivables	17,716	(338,382)
Increase/(decrease) in payables	454,561	108,370
Cash generated by operations	(4,287,362)	(3,218,736)
Income taxes paid	360,000	278,744
Interest paid	–	–
NET CASH FROM OPERATING ACTIVITIES	(3,927,362)	(2,939,992)

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.

Notes to the Financial Statements

For the year ended 31 December 2007

29. OPERATING LEASE ARRANGEMENTS

The Group as a lessee

	2007 £	2006 £
Minimum lease payments under operating leases recognised as an expense in the year	64,917	58,022

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:

	2007 £	2006 £
Within one year	69,582	46,406
In the second to fifth years inclusive	20,970	51,250
After five years	–	–

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases in the UK 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 are renegotiated at the end of the term.

The Company has no operating lease arrangements.

30. CONTINGENT LIABILITIES

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

31. 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.

	2007		2006	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	3,546,500	0.245	2,856,500	0.245
Granted during the period	2,470,000	0.136	1,300,000	0.245
Forfeited during the period	(295,000)	0.136	–	0.245
Exercised during the period	(891,500)	0.136	(300,000)	0.245
Expired during the period	–	–	(310,000)	0.245
Outstanding at the end of the period	4,830,000	0.136	3,546,500	0.245
Exercisable at the end of the period	1,355,000	0.136	2,246,500	0.245

The weighted average share price at the date of exercise for share options exercised during the period was 14.5p. The options outstanding at 31 December 2007 had a weighted average exercise price of 13.6 pence, and a weighted average remaining contractual life of 111 months. In 2007, options were granted on 29 August, 31 August, 3 December and 31 December. The aggregate of the estimated fair values of the options granted on those dates is £69,505. In 2006, options were granted on 22 March. The aggregate of the estimated fair values of the options on those dates is £105,659.

Notes to the Financial Statements

For the year ended 31 December 2007

31. SHARE-BASED PAYMENTS (continued)

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

	2007	2006
Weighted average share price	13.40p	24.5p
Weighted average exercise price	13.40p	24.5p
Expected volatility	36%	44%
Expected life	3 years	3 years
Risk free rate	5.44%	4.52 - 5.44%
Expected dividend yield	0%	0%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 12 months together with share prices of comparative companies over the same period. 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 £21,903 and £173,529 related to equity-settled share-based payment transactions in 2007 and 2006 respectively.

32. 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 terminous 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 terminous 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

Cytech Cores 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 terminous with that of the group.
- The company is dormant.
- The company's results are consolidated into these accounts

Company

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

	2007	2006
Loan to related parties		
Cyan Technology Limited	9,428,848	5,884,542
Cyan Asia Limited	710,976	348,519
	10,139,824	6,233,061

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 2007 these amounted to £295,199 (2006: £282,900). The Directors consider that the carrying value of loans approximates to their fair value.

Notice of AGM

CYAN HOLDINGS PLC

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Cyan Holdings plc (the "**Company**") for 2007 will be held at the offices of Dechert LLP, 160 Queen Victoria Street, London, EC4V 4QQ at 11 am on Wednesday, 30 April 2008 for the following purposes:

Ordinary Business

1. To receive and adopt the accounts of the Company for the financial year ended 31 December 2007 together with the directors' report and the auditors' report on those accounts.

2. To re-elect Dr John Read as a director of the Company.

3. To re-elect Mr Kenn Lamb as a director of the Company.

4. To re-elect Mr David Gutteridge as a director of the Company.

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

Special Business

To consider and, if thought fit, pass the following resolutions which will be proposed as to Resolution 6 as an ordinary resolution and as to Resolutions 7 and 8 as a special resolution:

6. THAT, in substitution for any existing authority under section 80 of the Companies Act 1985 (the "**Act**") but without prejudice to the exercise of any such authority prior to the date hereof, the directors be and are authorised generally and unconditionally for the purposes of section 80 of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to a maximum aggregate nominal amount equal to £116,106 to such persons and at such times and on such terms as they think proper during the period expiring (unless previously revoked or varied by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

7. THAT in substitution for any existing power under section 95 of the Act, but without prejudice to the exercise of any such power prior to the date hereof, the directors be and are empowered pursuant to section 95(1) of the Act to allot equity securities (within the meaning of section 94 of the Act) wholly for cash pursuant to the authority conferred on the directors by resolution 6 contained in the notice of the Annual General Meeting of the Company of which this resolution forms part as if sub-section (1) of section 89 of the Act did not apply to such allotment provided that this power shall (unless previously revoked or varied by the Company in general meeting) expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired and save also that the power conferred by this resolution shall be limited to:

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

   7.2 the allotment (otherwise than pursuant to sub-paragraph 7.1 above) of equity securities up to an aggregate nominal value not exceeding £27,925.

8. That with immediate effect the Articles of Association produced to the meeting for the purposes of identification marked "A" and signed by the chairman of the meeting be adopted by the Company in substitution for and to the exclustion of the existing Articles of Association of the Company.

By order of the board
Andrew Lee ACA
27 March 2008

Registered office:
Buckingway Business Park
Swavesey
Cambridge
CB4 5UQ

Notice of AGM

Notes:

1. A member entitled to attend and vote at the General Meeting is entitled to appoint a proxy to exercise all or any of his rights to attend, speak and to vote instead of him. A proxy need not be a member of the Company but must attend the General Meeting. If a member wishes his proxy to speak on his behalf at the General Meeting he will need to appoint his own choice of proxy (not the Chairman) and give his instructions directly to them. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which in aggregate should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. If you wish to appoint the Chairman as one of your multiple proxies, simply write "the Chairman of the Meeting".
2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified or office copy thereof must be deposited with Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the meeting. Completion and return of a form of proxy will not preclude a member from attending and voting in person.
3. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 6pm on 28 April 2008, or, in the event the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the aforesaid general meeting in respect of the number of shares registered in their name at the relevant time. Changes to entries in the register of members after 6pm on 28 April 2008, or, in the event the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
5. This note sets out the main changes required to be made to the articles of association of Cyan Holdings Plc (the "**Company**"), so that these articles are in line with changes to the law brought about by the provisions of the Companies Act 2006 ("**CA2006**") to date and to anticipate changes coming into force in October 2008.

   Form of resolution
   The concept of extraordinary resolutions was not retained and public companies can no longer pass written resolutions under CA2006. These provisions will not be included in the New Articles.

   Variation of class rights
   CA2006 has altered the position regarding proceedings and specific quorum requirements for a meeting convened to vary class rights, which will be provided for in the New Articles.

   Convening general and annual general meetings
   The New Articles will contain amended provisions dealing with the convening of general meetings and the length of notice required to convene general meetings. A general meeting to consider a special resolution can now be convened on 14 days' notice (previously 21 days' notice was required) and the chairman of a general meeting no longer has a casting vote.

   Votes of members
   The New Articles will entitle proxies to vote on a show of hands and on a poll, and provide for amended time limits for the appointment or termination of a proxy. CA2006 permits multiple proxies and multiple corporate representatives to be appointed, subject to certain conditions, which will be reflected in the New Articles.

   Conflicts of interest
   The duty that a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests is now codified by CA2006 with effect from 1 October 2008. Directors of public companies may authorise conflicts and potential conflicts, where appropriate and where permitted by the articles. The New Articles will give the directors authority to approve directors' conflicts of interest to avoid a breach of duty in addition to allowing conflicts of interest to be dealt with in a similar way to the current position. Directors deciding whether to authorise a conflict or potential conflict must have no interest in the matter being considered, and must act in a way they consider, in good faith, to be most likely to promote the company's success. The New Articles will contain provisions to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises, although this only applies where the position of potential conflict has previously been authorised by the directors.

   Notice of board meetings
   Use of modern communications means there may be no obstacles to giving notice to a director abroad. CA2006 provides that a director is treated as having waived his entitlement to notice, unless he supplies the Company with the information necessary to ensure he receives notice of a meeting before it takes place.

   Distribution of assets otherwise than in cash
   The New Articles do not contain provisions dealing with the distribution of assets in kind in the event of liquidation of the Company. The previous position is provided for in the Insolvency Act 1986.

   Provision for employees on cessation of business
   The New Articles will provide that where there is a cessation or transfer to any person of the whole or part of the undertaking of the company, the directors may in a general meeting provide for a person employed or formerly employed by the company.

   Electronic and web communications
   The New Articles will provide that the Company may communicate with members by means of website communication. Recipient members must be asked individually to agree that the Company may send documents or information to them by means of a website. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website. Members can always request a hard copy version.

   Directors' indemnities and loans to fund expenditure
   CA2006 widened the scope of powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors, and will be provided in the New Articles.

   Dispute resolution
   The New Articles provide that the primary procedure for dispute resolution for the Company is arbitration in accordance with the Rules of Arbitration of the International Chamber of Commerce. Where arbitration provisions cannot be used for a particular dispute or in cases where a member is bringing a derivative claim under the provisions of the Companies Act 2006, the New Articles provide that the courts of England and Wales have exclusive jurisdiction, and the governing law is English.

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CYAN HOLDINGS PLC

ANNUAL GENERAL MEETING

Form of Proxy

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

of ....

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

.... as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 30 April 2008 at 11 a.m. at the offices of Dechert LLP, 160 Queen Victoria Street, London EC4V 4QQ and at any adjournment thereof.

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

Resolution	**For**	**Against**
1 To receive and adopt the financial statements for the period ended 31 December 2007		
2 To re-elect Dr John Read as a director		
3 To re-elect Mr Kenn Lamb as a director		
4 To re-elect Mr David Gutteridge as a director		
5 To re-appoint Deloitte & Touche LLP as auditors to the Company		
6 To authorise the Directors to allot relevant securities pursuant to section 80 of the Companies Act 1985 in the manner contained in the notice of Annual General Meeting		
7 To disapply section 89(1) of the Companies Act 1985 in the manner contained in the notice of Annual General Meeting		
8 To adopt a new set of Articles of Association		

Dated 2008

Signature ....

Notes

1. If it is desired to appoint another person or persons as proxy the words "the Chairman of the Meeting or" should be deleted and the name of the proxy (who need not be a member of the Company) inserted into the appropriate space.If such words are not deleted and a proxy is named on this form the Chairman shall not be entitled to vote as proxy. Any alteration must be initialled.
2. To be valid, this form, together with the power of attorney or other written authority, if any, under which it is signed or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or written authority, must be lodged with Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the meeting.
3. A corporation must execute this form either under its common seal or under the hand of two directors or one director and the secretary or under the hand of an officer or attorney duly authorised in writing.
4. In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated and the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.For this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
5. Deposit of a completed form of proxy will not preclude a member from attending the Annual General Meeting and voting in person.
6. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, to be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the number of votes they may cast) members must be entered on the register of members of the Company by 6 p.m. on 28 April 2008. If the meeting is adjourned, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the adjourned meeting is 48 hours prior to the time of any adjourned meeting.
7. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which in aggregate should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. If you wish to appoint the Chairman as one of your multiple proxies, simply write "the Chairman of the Meeting". When two or more valid but differing proxies are delivered in respect of the same share for use at the meeting, the one which is last validly delivered (regardless of its date, its date of sending or the date of its execution) shall be treated as replacing and revoking the other(s) as regards that share and, if the Company is unable to determine which of any such two or more valid but differing appointments of proxy was so delivered in time, none of them shall be treated as valid in respect of that share. If a member submits more than one valid proxy appointment the appointment received last before the latest time for the receipt of proxies will take precedence.

First Fold

Third Fold (Tuck-in)

BUSINESS REPLY SERVICE
License No. MB122

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Capita Registrars
The Proxy Department
PO Box 25
Beckenham
Kent
BR3 4BR

Second Fold

Officers and Professional Advisers

Nominated Adviser and Broker
Collins Stewart Europe Limited
9th Floor
88 Wood Street
London EC2V 7QR

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

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

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

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Patent Attorneys
Beresford & Co
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Chesterton Branch
28 Chesterton Road
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cyan holdings plc

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