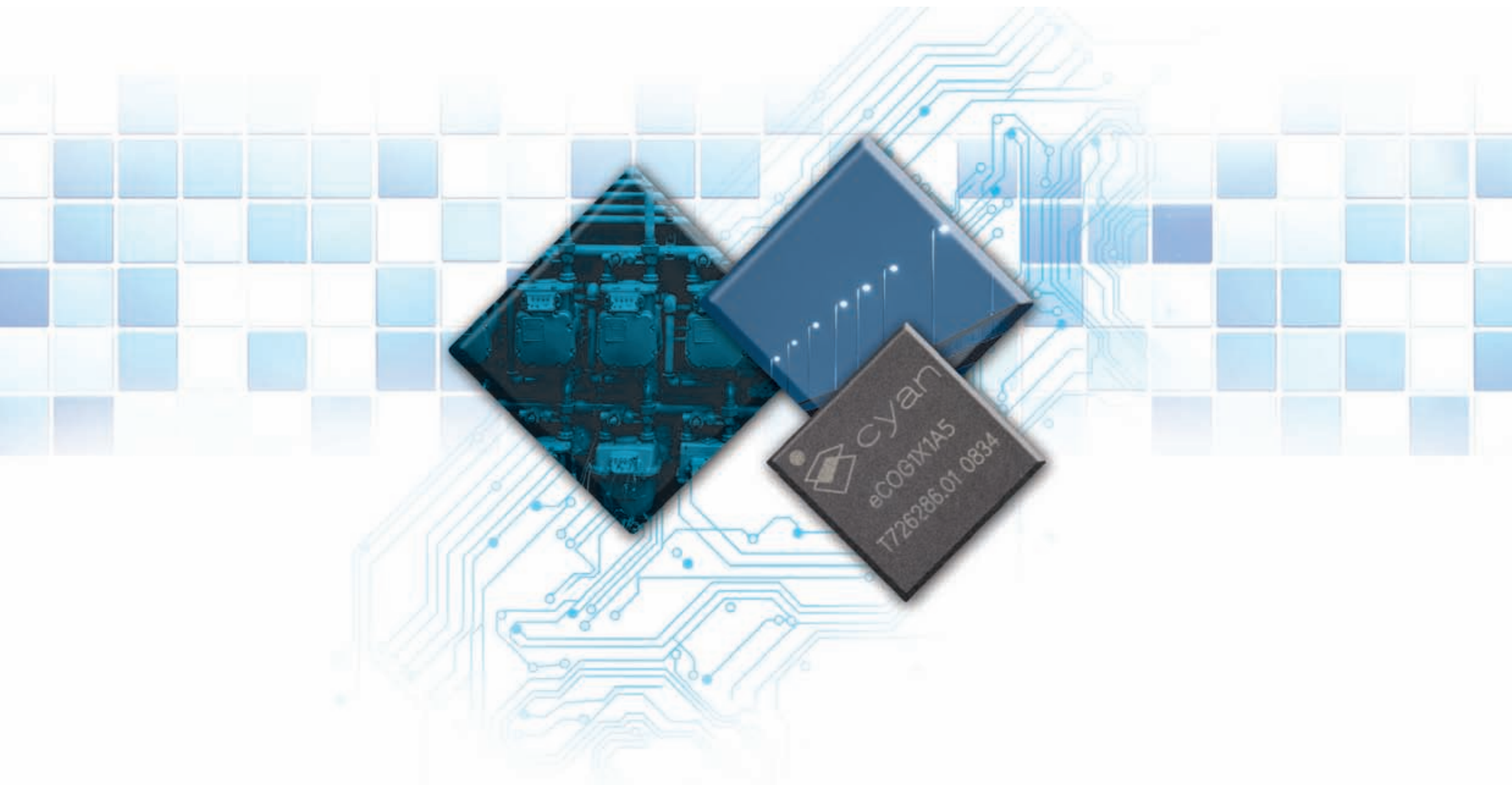
Annual Report and Financial Statements 2010



cyan holdings plc

About Cyan

Based in Cambridge in the UK, Cyan Holdings plc is a integrated system design company delivering mesh based flexible wireless solutions for lighting control, utility metering and industrial telemetry. Cyan supplies complete systems including wireless enabled modules suitable for either new installation or retrofitting. Cyan's products operate in all international frequency bands allocated for these functions and Cyan supplies programmable gateways and concentrators that collect and collate meter readings from individual meters or operate lighting profiles as defined by the user who has access through the Internet or mobile telephone networks.

Cyan's systems integrate a proprietary mesh networking protocol CyNet that has been optimised for in building, street and tunnel lighting. In addition Cyan supplies higher level protocols CyLec, CyLux and CyGas that offer features required by the respective utility metering and lighting control markets, simplifying the integration of Cyan's wireless control systems to existing meters and lights. Cyan also offers back end integration and operation products interfacing to billing systems and signaling tamper alarms for metering and map based monitoring and control for lighting systems.

Cyan supplies meter and lighting manufacturers with low cost products that provide all the hardware and software required to upgrade their existing utility meters and lighting control systems, to offer remote wireless control. All Cyan systems 'work straight out of the box' and are easy to use, modify and deploy with hand held units for commissioning or maintenance and 'Over the air upgrade' of all firmware providing future proofing through remote wireless upgrade of all installed hardware.

The current global demand for Cyan products is primarily supported through Future Electronics who have 169 offices in 44 countries. Demand is increasing, as Cyan products deliver ongoing cost savings, that can recover the cost of purchase and installation in a period that is short compared to the product's lifetime.

Cyan lighting control systems:
Reduce power consumption through dimming; either event (ambient light) or time of day (eg: street lighting).

Reduce maintenance costs through real time monitoring of status; (on/off) and temperature (lifetime).

Monitor actual power consumption so that energy savings can be calculated and reported.

Cyan meter monitoring systems enable remote meter reading and control:
Reducing meter reading costs

Enabling user profiling to detect meter tampering

Supporting remote on/off control to enforce payment or proactively manage demand

Enabling pre payment controlled by secure transaction directly with the utility provider

Increase generation efficiency by use of time of day tariffs to modify consumer behaviour.

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

CyLux™ Wireless Street Lighting Control

Reduces energy use and maintenance costs.

Remote control/programming of on/off and brightness.

Monitors lamp status, measures actual power usage.

Techtop LED street lights

LED street lights fitted with Cyan's CyLux module

Cyan Products

Access Point (Gateway)

Supports remote access via Ethernet, USB or GPRS mobile phone network.

Web server interface option, remotely programmable for autonomous operation (on/off/brightness by individual lamp and time of day).

Maintenance alerts for lamp failures, excess temperatures.

Energy usage monitoring and reporting.

Wireless Lighting Controller

Low cost, uses a single MCU for both network and lighting control.

Self-forming self-healing for ease of installation and fault tolerant communication.

Global frequency coverage, all sub 1GHz ISM bands.

Programmable for multiple lighting technologies.

CyLec™ Wireless Meter Reading and Remote Control

Automated Meter Reading, Energy Use Monitoring and Demand Control.

Usage reading, tariff adjustment, on/off control all supported remotely.

Over the air upgradeable.

User profiling, usage metering and payment enforcement.

Demand management and customer usage notification.

Capital electricity meter

Wireless electricity meter manufactured by Capital fitted with Cyan's CyLec module

Cyan Products

Access Point (Gateway or Concentrator)

Supports remote access via Ethernet, USB or GPRS mobile phone network.

Web server interface option.

Collates and stores individual meter readings.

Remote access to individual meters.

Battery operated Wireless Gas Meter

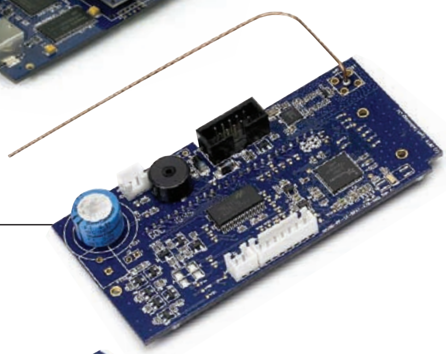
Low Cost, uses a single MCU for both network and all meter functions.

Self-forming self-healing for ease of installation and fault tolerant communication.

Ultra low power operation using AA batteries.

Usage reading, tariff adjustment, on/off control all supported remotely.

Over the air upgradeable.



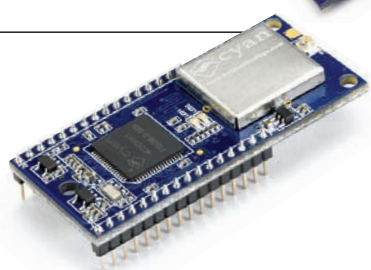
Wireless Meter Node

Transparent bi-directional data transfer for retrofit to existing meters.

Global frequency coverage, all sub 1GHz ISM bands.

Self forming, Self healing mesh network for ease of installation and fault tolerant communication.

User programmable for communication to proprietary meters.



Chairman's Statement

Dr John Read

At the time of the last Annual Report, Cyan laid out its strategic aim to become a major supplier of solutions for lighting control, utility metering and industrial telemetry; and I am pleased to report the company has taken great steps towards reaching this goal in the first two of these markets in 2010.

Since that time the Company has shipped tens of thousands of units to wireless utility metering customers around the world. Most of these units were installed into large-scale trials. In the second half of 2010 a number of customers indicated to the Company that they were bidding for tenders of substantial quantity, and already in 2011 Cyan is aware of two new tenders for wireless electricity meters in excess of one million units each.

Cyan has developed technology and products that deliver cost effective ready-to-deploy solutions. These allow established lighting and utility metering manufacturers to easily enhance their products to support remotely managed wireless networks of street-lights or utility-meters. There is substantial growing global demand for such wireless management networks and in recent years Cyan has made significant investment and has gained extensive expertise in designing, manufacturing and deploying such networks.

Cyan has now evolved from developing and supplying just the wireless communication components, to providing complete system solutions, so much so that the Company is now better described as an integrated system design company.

Cyan has recently succeeded in initiating a program of direct engagement with a number of utility companies and government departments, who are working to define the requirements for their next generation wireless electricity meters. Cyan is supported in this by a number of established meter manufacturers in that region who have already committed to incorporate Cyan products into their next generation wireless electricity meters, and wish to see Cyan's mesh technology incorporated into any new national standard.

At the start of 2010 Cyan was well positioned having design-in programs with a number of lighting manufacturers in several countries. Now, at the beginning of 2011, we believe that Cyan's position is considerably stronger with a number of leading organisations specifying Cyan wireless lighting technology for pilot programmes and production installations due in 2011. This is in part the result of becoming a fully integrated system design business and the efforts and increased reputation of the Company within these regions.

The company announced an important initial order for wireless monitoring and control of outdoor public lighting in China. The initial order is for 10,000 modules, and installation has begun in Q1 2011. The customer's initial project requires the eventual replacement of 200,000 street lights in a single city and the installation rate is expected to exceed 10,000 units per month by Q4 2011. This customer is a large established Chinese lighting manufacturer who has informed Cyan's management that it has already won, or expects to win, contracts in three further cities.

Following this contract win and the satisfactory results of the trial, the customer now plans to market Cyan controlled HID (High Intensity Discharge) products across the whole of China through its network of over 2,000 agents. Cyan is currently in negotiation with the customer to further develop their HID lighting product by tightening the integration between Cyan lighting control and the other elements of the HID light to create a highly integrated and lower total cost HID lighting solution.

As previously announced, the Company has also entered into a partnership with a large lighting manufacturer in India, to replace 375,000 street lights. The partnership agreement gives the customer access to Cyan server technology on condition of use of Cyan lighting control products and the active marketing of the combined solution to other cities. An initial order of 1,000 units has been received to set up a demonstration facility of the combined lighting control system. Cyan is also engaged with a range of other customers primarily in India and China but also in Africa, Europe and the USA that have completed or undertaken further trials during the year.

Cyan is building on its key partnerships, particularly with Future Electronics Inc, a top three worldwide electronic component distributor with divisions focussed on metering and lighting products. Future Electronics provides a global distribution network for all Cyan products. During the year we have jointly participated in a number of exhibitions and trade shows and Cyan has trained many of their sales people with our products.

The board believes that the company is now well positioned to capitalise on its focus in lighting and metering markets and that 2011 will see a significant upturn in order intake, which will result in a substantial increase in revenues.

In September, the company successfully raised £1.8m net at 0.75p per share to provide working capital in this time of strategic positioning. In addition to this, since year end, in January 2011 the Company raised a further £895,000 net at 1.25p per share for the same purpose.

For the year ended 31 December 2010 both operating costs and R&D Costs were kept at a low level resulting in an operating loss of £2, 954,055 (2009: £3,133, 135). The loss for the year also remained constant at £2,648,116 (2009: £2, 652, 260). Cash at year end was £1,484,437 (2009: £1,968,072).

John Read
Chairman
25 March 2011

Chief Executive's Statement

Kenn Lamb

Kenn Lamb, CEO of Cyan, commented:

I am delighted with the progress that Cyan made in the final quarter of 2010 and we have seen substantial momentum and upswing in order enquiries in the first quarter of 2011. Despite a difficult two years for the Group, I am now convinced that 2011 will be a major turning point for us.

Our business has two principal product groups:

- Lighting control and monitoring
- Utility meter monitoring and control

Lighting control and monitoring (CyLux)

Cyan has developed a fully integrated wireless end-to-end system for public lighting such as; street lights, tunnels, highways, industrial parks and public locations, which is capable of dimming three different types of light; HPS, HID and LED. We are confident that the combination of features in our system makes a unique system solution, and we already have manufacturers of the electronic drivers for these lights producing prototype versions incorporating Cyan wireless control; 'Cyan Inside'. CyLux allows city authorities to remotely set lighting profiles: turning on/off and dimming at preset times for optimised lighting intensity through evening, late night and morning to maximise power saving. Actual power saving is measured and reported by Cyan's system, a very popular feature with customers as many of them are financially incentivised based on the actual energy saving delivered. In addition to the above functionality CyLux can accurately monitor lamp status and proactively identify maintenance or lamp repair requirements with interactive maps showing lamp locations and status.

The increasing cost of energy and limitations in generating capacity within the developing world are significant factors restraining the potential levels of future economic growth in these countries. Accordingly, energy efficiency has become a major focus for the governments of developing nations. As a result of this Governmental pressure we are experiencing a substantial increase in enquiries from both China and India. This began towards the end of 2010 and the momentum has increased substantially during the first quarter of 2011. Not only has our order book increased dramatically, we are also awaiting the results of a number of tenders that our customers and prospective customers are involved in.

Electricity and gas meter reading (CyLec & CyGas)

Over the past three years Cyan has been at the forefront of the development of wireless mesh network solutions for electricity and gas metering. Cyan has chosen to utilise radio frequencies suited for these applications which will penetrate buildings and in the case of India and China have been specifically allocated for this purpose. Gas metering solutions require battery operation and Cyan has established a USP with wireless mesh networking meters operating for years from AA batteries, a technology that is also directly applicable to water metering. We are now seeing a substantial increase in enquiries and new tender requirements for these products within India and China. Multiple meter manufacturers have adopted Cyan wireless meter solutions and Cyan's integrated mesh metering solution is now well positioned influential electricity boards.

A primary driver for wide deployment of remotely monitored and managed metering systems with prepayment and tamper alert capability is to address the problem that within the developing world it has become very difficult to accurately check usage and enforce payment. Cyan's metering solutions branded CyLec and CyGas have been developed over the last two years to directly address these problems, and contain many features developed and proven in field trials in collaboration with meter manufacturers. As utility companies become increasingly aware of the new capabilities of Cyan's metering solutions we expect, and are already seeing, new tender requirements reflecting these features. We are currently in discussions at high levels and are aware of tender proposals within a number of substantial electricity and gas utility companies in India and China and I am confident that during the next twelve months we will receive significant orders for Cyan metering solutions.

For the first time in Cyan's trading history it is my and the board's view that now is the right time for Cyan, that we have chosen the right markets, and that we have developed the right products. The level of customer orders and positive feedback makes us confident that we are well positioned to deliver substantial shareholder value as our revenues track the pace of growth of these markets. The business is now very well positioned to grow substantially and I would like to take this opportunity to thank all of our staff and my board for their efforts and diligence, and our shareholders for their patience and support in making Cyan a business that we will all be proud of.

Kenn Lamb
Chief Executive Officer
25 March 2011

Directors' Report

The Directors present their annual report on the affairs of the Group together with the audited financial statements and auditor's report for the year ended 31 December 2010.

Principal activity and review of the business

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

Principal risks and uncertainties

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

- The Group's products compete for technological superiority over those of competitors. There is a risk that new product developments by competitors diminish the attractiveness of the Group's products to customers, reducing sales.
- Sales by the Group are largely dependent on end-customers winning competitive tenders for significant contracts. The likelihood of the end-customers winning those contracts is inherently uncertain.
- Sales into the street lighting sectors are subject to local or central government approval of significant infrastructure investment programmes, which may be uncertain in timing and subject to significant changes arising from political factors.
- As with many technology businesses, the Group is dependent on a relatively small number of highly-skilled staff. The ability of the Group to retain and motivate its key staff is a key business risk.
- As discussed further in note 3, the Group's ability to continue as a going concern is subject to significant risks and uncertainty.

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

Key performance indicators

During 2010, the Group incurred a monthly average operating cash burn of £203,000 (2009: £252,000) and incurred a loss for the year of £2,648,116 (2009: £2,652,260). Revenue in 2010 was £139,047 (2009: £95,569). The Group had an average of 29 staff in 2010 (2009: 30).

Going Concern

The directors have prepared a business plan and cash flow forecast for the period to 31 December 2012. The forecast contains certain assumptions about the level of future sales and the level of gross margins and also identified the need for additional finance to fund working capital within the next six months. These assumptions are the directors' best estimate of the future development of the business.

The directors acknowledge that the Group is trading in a difficult economic environment and in markets that are new to the Group. This may impact both the Group's ability to generate positive cashflow and to raise new finance. There is a significant risk that the level of sales achieved is materially lower than the level forecast or at materially lower margins. The directors have taken steps to satisfy themselves about the robustness of sales forecasts but acknowledge that the timing of customer orders in the Group's target markets is inherently uncertain. In addition, the directors have been in communication with a number of potential investors, including current shareholders, who have expressed interest in providing the necessary funding upon evidence of firm sales orders. There does remain a significant risk that the required level of funding will not be received in the necessary timescales or at all. The directors are of the opinion that this business plan is achievable. On this basis, the directors have assumed that the company is a going concern.

There is a material uncertainty related to the assumptions described above 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, including inventories, to their recoverable amount and providing for any further liabilities that might arise.

Dividends
The Directors do not recommend the payment of a dividend (2009: £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 Group operating in this industry sector and at this stage of its development.

Capital Structure
Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 23. 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 Company'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 32.

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

With regard to the appointment and replacement of directors, the company is governed by its Articles of Association, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Corporate Governance Statement on page 9.

Under its Articles of Association and pursuant to authorities granted under the Companies Act, the company has authority to issue ordinary shares of 0.2 pence each up to a nominal value of £3,000,000.

Since the end of the period, the Group raised additional equity funding as described in note 5.

Directors and their interests
The Directors who served the Company during the year, unless otherwise stated, were as follows:

Executive Directors
Kenn Lamb

Non-Executive Directors
Dr John Read (Chairman)
David Gutteridge (resigned 21 April 2010)
Simon Smith (appointed 29 March 2010)

Mr Simon Smith and Dr John Read are the members of the audit committee, nominations committee and remuneration committee. Mr Kenn Lamb retires at the next Annual General Meeting and, being eligible, offers himself for re-election.

The interests of the Directors in the shares of the Company are shown in the remuneration committee report on page 10.

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 £1,737,703 (2009: £1,532,669).

Significant Holdings

In addition to the Directors' interests shown in the remuneration committee report on page 10 the Company had been notified of the following voting rights as a shareholder in the company at 16 March 2011:

	Percentage of voting rights and issued share capital	Number of ordinary shares	Nature of holding
P Lobbenberg	15.36%	153,700,000	Combined
Legal and General	8.99%	90,000,000	Direct
Brewin Dolphin Limited	6.03%	60,310,895	Direct
XCAP Securities	6.00%	60,000,000	Direct
Barnard Nominees	5.85%	58,548,666	Direct
Kenn Lamb	4.10%	41,067,414	Combined
Rensburg Sheppards Investment Management Ltd	3.98%	39,827,000	Direct

Fixed Assets

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

Supplier payment policy

It is the policy of the Group to settle supplier invoices in line with the terms of business negotiated with them. The average creditor days for the Group during 2010 was 25 days (2009: 18 days).

Charitable and political donations

There were no charitable or political donations made during the year (2009: none).

Auditor

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

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

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

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

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

Kenn Lamb
Chief Executive Officer
25 March 2011

Board of Directors

Kenn Lamb – Chief Executive Officer (aged 52)

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.

Dr John Read – Non-Executive Chairman (aged 69)

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

Simon Smith – Non-Executive Director (aged 43)

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

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

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

Corporate Governance Statement

Whilst companies whose shares are listed on AIM are not formally required to comply with the Combined Code or the UK Corporate Governance 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 2010 the Board comprised three Directors, two of whom were independent Non-Executive Directors. The Non-Executive Directors do not have any day to day involvement in the running of the business. The Board is responsible for overall strategy, the policy and decision making framework in which this strategy is implemented, approval of budgets, monitoring performance, and risk management. The Board meets at regular scheduled intervals and follows a formal agenda; it also meets as and when required.

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

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

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 2010 were Dr John Read and Simon Smith. Both directors are independent non-executive directors and the Committee was chaired 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.

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. No incentive payments for the year ended 31 December 2010 were made (2009: £nil). The Committee has the power to grant bonuses at its discretion.

Share options

During the year ended 31 December 2007 following notification in the circular to the shareholders for the Extraordinary General Meeting on 24 August 2007, the Company commenced work on setting up an Employee Benefit Trust. During the year ended 31 December 2010, there were no issues under this scheme (2009: no issues).

Remuneration Committee Report

The performance criterion that must be met is based on the fact that no director will gain via the Employee Benefit Trust until the share price (0.95 pence on 31 December 2010) has recovered to 2.5 pence.

Pension arrangements

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

Directors' contracts

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

The details of the directors' contracts are summarised in the table below:

Name of Director	Date of contract
Kenn Lamb	27 March 2007
Dr. John Read	30 November 2005
Simon Smith	29 March 2010

Non-executive directors

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

Dr. John Read	£50,000
Simon Smith	£19,037

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

Directors' emoluments

Name of director	Fees/ Basic salary £	Benefits in kind £	Compensation for loss of office £	Annual bonus £	2010 total £	2009 total £
Executive						
Kenn Lamb	150,720	1,111	–	60,000	211,831	210,720
Andrew Lee	–	–	–	–	–	26,281
Non Executive						
Dr. John Read	50,000	–	–	–	50,000	50,000
Mr Simon Smith	19,037	–	–	–	19,037	–
Mr David Gutteridge	12,500	–	–	–	12,500	30,000

Fees totalling £12,500 were paid to third parties in respect of directors services during 2010 (2009: £30,000).

Remuneration Committee Report

Directors' share options (audited)
Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the directors. There were no options exercised by directors during the year (2009: nil).

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

During 2008 an Employee Benefit Trust was set up (EBT). No shares were issued to Directors during the year under this scheme (2009: nil). At 31 December 2010, shares held by Directors under this scheme were as follows:

	2010 £	2009 £
Kenn Lamb	30,000,000	30,000,000
John Read	1,000,000	1,000,000
	31,000,000	31,000,000

The market price of the ordinary shares at 31 December 2010 was £0.0095 and the range during the year was £0.0062 to £0.022.

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	2010 £	2009 £
Kenn Lamb	4,710	1,875

Approval
This report was approved by the board of directors on 25 March 2011 and signed on its behalf by:

Dr John Read
25 March 2011

Directors' Responsibilities Statement

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

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

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; 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; and
- make an assessment of the company's ability to continue as a going concern.

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

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

By order of the Board

Chief Executive
Kenn Lamb
25 March 2011

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

We have audited the financial statements of Cyan Holdings plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2010 of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

Without modifying our opinion, we draw attention to the disclosures made in note 3 of the financial statements concerning the company's ability to continue as a going concern. The Group incurred a net loss of £2,669,597 during the year ended 31 December 2010 and, as of that date, the Group's cash balance was £1,484,437. In making their assessment of whether the application of the going concern assumption is appropriate, the directors have referred to the Company's business plan and cash flow forecast, which assumes a certain level of sales at a certain gross margin and a need in the foreseeable future for additional funding. There is a significant risk that the actual level of sales achieved is materially lower than is assumed in the business plan or that the margins may be significantly lower than planned. In addition, there is a risk that the required level of additional funding will not be received on a sufficiently timely basis or will not be achieved at all. These conditions, along with other matters in note 3, indicate the existence of a material uncertainty which may cast significant doubt upon the Company's ability to continue as a going concern. The financial statements do not contain the adjustments that would result if the Group was unable to continue as a going concern. In the event the Group ceased to be a going concern, the adjustments would include writing down the carrying value of assets, including inventories, to their recoverable amount and providing for further liabilities that might arise.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Stuart Henderson
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom
25 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Note	2010 £	2009 £
Continuing operations			
Revenue	6	139,047	95,569
Cost of sales		(96,326)	(62,897)
Gross profit		42,721	32,672
Operating costs		(1,259,073)	(1,633,138)
Research and development costs		(1,737,703)	(1,532,669)
Operating loss		(2,954,055)	(3,133,135)
Investment revenue	6,11	1,487	1,639
Finance costs	12	(85)	(11)
Loss before tax		(2,952,653)	(3,131,507)
Tax	13	304,537	479,247
Loss for the year	9	(2,648,116)	(2,652,260)
Loss per share (pence)			
Basic	14	(0.4)	(0.5)
Diluted	14	(0.4)	(0.5)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 £	2009 £
Exchange differences on translation of foreign operations	(66,140)	145,834
Loss for the year	(2,648,116)	(2,652,260)
Total comprehensive income for the period	(2,714,256)	(2,506,426)

Consolidated Balance Sheet

At 31 December 2010

	Notes	2010 £	2009 £
Non-current assets			
Intangible assets	15	–	–
Property, plant and equipment	16	29,114	39,729
		29,114	39,729
Current assets			
Inventories	18	872,923	893,087
Trade and other receivables	19	411,848	569,601
Cash and cash equivalents	19	1,484,437	1,968,072
		2,769,208	3,430,760
Total assets		2,798,322	3,470,488
Current liabilities			
Trade and other payables	22	283,872	229,332
Total liabilities		283,872	229,332
Net assets		2,514,450	3,241,157
EQUITY			
Share capital	23	1,847,666	1,309,565
Share premium account	24	20,378,625	19,026,290
Own shares held	25	(690,191)	(690,191)
Share option reserve	26	476,999	379,886
Translation Reserve		(294,254)	(228,114)
Retained earnings	27	(19,204,395)	(16,556,279)
Total equity being equity attributable to equity holders of the parent		2,514,450	3,241,157

The financial statements of Cyan Holdings plc (registered number 04554942) were approved by the board of directors and authorised for issue on 25 March 2011. They were signed on its behalf by:

Kenn Lamb
Director

Consolidated Statement of Changes in Equity

At 31 December 2010

	Share Capital £	Share Premium £	Own shares held £	Share Option Reserve £	Translation Reserve £	Retained Losses £	Total Equity £
Balance at 31 December 2008	954,259	16,391,994	(690,191)	268,852	(373,948)	(13,904,019)	2,646,947
Loss for the year	–	–	–	–	–	(2,652,260)	(2,652,260)
Other comprehensive income for the year	–	–	–	–	145,834	–	145,834
Total comprehensive income for the year	–	–	–	–	145,834	(2,652,260)	(2,506,426)
Issue of share capital	355,306	2,634,296	–	–	–	–	2,989,602
Credit to equity for share options	–	–	–	111,034	–	–	111,034
Balance at 31 December 2009	1,309,565	19,026,290	(690,191)	379,886	(228,114)	(16,556,280)	3,241,157
Loss for the year	–	–	–	–	–	(2,648,116)	(2,648,116)
Other comprehensive income for the year	–	–	–	–	(66,140)	–	(66,140)
Total comprehensive income for the year	–	–	–	–	(66,140)	(2,648,116)	(2,714,256)
Issue of share capital	538,101	1,352,335	–	–	–	–	1,890,436
Credit to equity for share options	–	–	–	97,113	–	–	97,113
Balance at 31 December 2010	1,847,666	20,378,625	(690,191)	476,999	(294,254)	(19,204,395)	2,514,450

Company Balance Sheet

At 31 December 2010

	Notes	2010 £	2009 £
Non-current assets			
Intangible assets	16	–	–
Investments in subsidiaries	17	478,999	381,886
		478,999	381,886
Current assets			
Loans to other Group entities	33	–	–
Trade and other receivables	19	308,135	724,366
Cash and cash equivalents	19	1,330,260	1,874,394
		1,638,395	2,598,760
Total assets		2,117,394	2,980,646
Current liabilities			
Trade and other payables	22	36,857	41,500
Loans from other Group entities		2,000	2,000
Total liabilities		38,857	43,500
Net assets		2,078,537	2,937,146
EQUITY			
Share capital	23	1,847,666	1,309,565
Share premium account	24	20,378,625	19,026,290
Share option reserve	26	476,999	379,886
Retained earnings	27	(20,624,753)	(17,778,595)
Total equity		2,078,537	2,937,146

The financial statements Cyan Holdings plc (registered number 04554942) were approved by the board of directors and authorised for issue on 25 March 2011. They were signed on its behalf by:

Kenn Lamb
Director

Company Statement of Changes in Equity

At 31 December 2010

	Share Capital £	Share Premium £	Share Option Reserve £	Retained Losses £	Total Equity £
Balance at 31 December 2008	954,259	16,391,994	268,852	(15,416,064)	2,199,041
Loss for the year	–	–	–	(2,362,531)	(2,362,531)
Other comprehensive income for the year	–	–	–	–	–
Total comprehensive income for the year	–	–	–	(2,362,531)	(2,362,531)
Issue of share capital	355,306	2,634,296	–	–	2,989,602
Credit to equity for share options	–	–	111,034	–	111,034
Balance at 31 December 2009	1,309,565	19,026,290	379,886	(17,778,595)	2,937,146
Loss for the year	–	–	–	(2,846,158)	(2,846,158)
Other comprehensive income for the year	–	–	–	–	–
Total comprehensive income for the year	–	–	–	(2,846,158)	(2,846,158)
Issue of share capital	538,101	1,352,335	–	–	1,890,436
Credit to equity for share options	–	–	97,113	–	97,113
Balance at 31 December 2010	1,847,666	20,378,625	476,999	(20,624,753)	2,078,537

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Notes	2010 £	2009 £
Net cash outflow from operating activities	30	(2,293,931)	(2,400,080)
Investing activities			
Interest received		1,487	1,639
Purchases of property, plant and equipment		(15,126)	(10,927)
Net cash from investing activities		(13,639)	(9,288)
Financing activities			
Interest paid		(85)	(11)
Proceeds on issue of shares		2,035,913	3,207,633
Share issue costs		(145,477)	(218,031)
Net cash from financing activities		1,890,351	2,989,591
Net (decrease)/increase in cash and cash equivalents		(417,219)	580,223
Cash and cash equivalents at beginning of year		1,968,072	1,356,886
Effect of foreign exchange rate changes		(66,416)	30,963
Cash and cash equivalents at end of year		1,484,437	1,968,072

Company Cash Flow Statement

For the year ended 31 December 2010

	Notes	2010 £	2009 £
(Loss) for the year		(2,846,158)	(2,362,531)
Operating cash flows before movement in working capital		(2,846,158)	(2,362,531)
Decrease/(increase) in receivables		416,231	(3,206)
(Increase)/decrease in payables		(4,643)	(12,233)
Net cash used by operating activities		(2,434,570)	(2,377,970)
Financing activities			
Proceeds on issue of shares		2,035,913	3,207,633
Share issue costs		(145,477)	(218,031)
Net cash from financing activities		1,890,436	2,989,602
Net (decrease)/increase in cash and cash equivalents		(544,134)	611,632
Cash and cash equivalents at beginning of year		1,874,394	1,262,762
Cash and cash equivalents at end of year		1,330,260	1,874,394

Notes to the Financial Statements

For the year ended 31 December 2010

1. GENERAL INFORMATION

Cyan Holdings plc is a company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is Cyan Holdings plc, Buckingway Business Park, Swavesey CB24 4UQ. The nature of the Group's operations and its principal activities are set out in the Director's Report on page 5.

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

2. ADOPTION OF NEW AND REVISED STANDARDS

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

IFRS 2	Amended 2009	Share based payments
IFRS 3	Amended 2008	Business combinations
IAS 27	Amended 2008	Consolidated and separate financial statements
IAS 28	Amended 2008	Investments in associate
IAS 39	Amended 2008	Eligible hedged items
IFRIC 17		Distributions of non-cash assets to owners

The Improvements to IFRSs (May 2009)

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

Standards and interpretation in issue but not yet effective

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

IFRS 9		Financial instruments – classification and measurement
IAS 24	(Amended 2009)	Related party disclosures
IAS 32	(Amended 2009)	Classification of rights issues
IFRIC 14	(Amended 2009)	Prepayments of a minimum funding requirement
IFRIC 19		Extinguishing financial liabilities with equity instruments

All amendments to the standards noted above result from the 2010 annual improvement process.

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

3. SIGNIFICANT ACCOUNTING POLICIES

Group

Basis of accounting

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

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

Going concern

The directors have prepared a business plan and cash flow forecast for the period to 31 December 2012. The forecast contains certain assumptions about the level of future sales and the level of gross margins and also identified the need within the foreseeable future for additional finance to fund working capital. These assumptions are the directors' best estimate of the future development of the business.

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The directors acknowledge that the Group is trading in a difficult economic environment and in markets that are new to the Group. This may impact both the Group's ability to generate positive cashflow and to raise new finance. There is a significant risk that the level of sales achieved is materially lower than the level forecast or at materially lower margins. The directors have taken steps to satisfy themselves about the robustness of sales forecasts but acknowledge that the timing of customer orders in the Group's target markets is inherently uncertain. In addition, the directors have been in communication with a number of potential investors, including current shareholders, who have expressed interest in providing the necessary funding upon evidence of firm sales orders. There does remain significant risk that the required level of funding will not be received in the necessary timescale or at all. The directors are of the opinion that this business plan is achievable. On this basis, the directors have assumed that the Group is a going concern.

There is a material uncertainty related to the assumptions described above which may cast significant doubt on the Company'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, including inventories, to their recoverable amount and providing for any further liabilities that might arise.

Basis of consolidation

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

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

Revenue recognition

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

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 loss

Operating loss is stated before investment income and finance costs.

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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%

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 arising 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);
- the project from which the asset arises meets the Group's criteria for assessing technical feasibility;
- 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.

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Financial instruments

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

Financial assets

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

Loans and receivables

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

Impairment of financial assets

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered 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.

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Company

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

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

The loss for the year dealt with in the financial statements of the Company was £2,846,158 (2009: £2,362,531). As permitted by section 408 of the Companies Act 2006, no separate income statement is presented in respect of the parent company.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying the Group's accounting policies

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

- Inventories include stocks of raw materials and finished goods that the directors believe will be sold within the period to December 2012 covered by the Group's business plan. The directors have assumed that the carrying value is recoverable as a result of the sales and gross margins forecast in that plan. Stocks of product that are not included within the sales forecasts have been provided against in full.

- The directors have prepared the financial statements on the basis that the Company is a going concern. Further information on this critical judgement is included in note 3 and within the Directors' Report.

- The carrying value of the Company's investment in subsidiaries is dependant upon the Group achieving its business plan.

5. POST BALANCE SHEET EVENT

Since the end of the period, the Group raised additional equity funding of £900,000 through a subscription for new ordinary shares. The shares subscribed for were within the limits authorised at the September 2010 EGM and therefore did not need shareholder approval.

6. REVENUE

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

	2010 £	2009 £
Continuing operations		
Sale of goods	139,047	95,569
Investment income	1,487	1,639
Total revenue	140,534	97,208

Notes to the Financial Statements

For the year ended 31 December 2010

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

During 2010 there were 2 customers (2009: 4) whose turnover accounted for more than 10% of the Group's total revenue as follows:

	Turnover £	Percentage of Total %
Customer A	75,596	54.0
Customer B	23,856	17.0

During 2010 revenue split between the UK and other countries was as follows:

	2010		2009	
	Turnover £	Percentage of Total %	Turnover £	Percentage of Total %
UK	14,074	10.1	24,925	25.8
Rest of World	124,973	89.9	71,644	74.2

8. LOSS FOR THE YEAR

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

	2010 £	2009 £
Net foreign exchange (gains)/losses	(62,197)	154,506
Research and development costs	1,737,703	1,532,669
Depreciation of property, plant and equipment	26,017	62,232
Inventories recognised as an expense	67,149	62,897
Impairment of inventories	–	–
Staff costs (see note 10)	1,807,865	1,888,739
Impairment loss recognised on trade receivables	–	–

9. AUDITOR'S REMUNERATION

The analysis of auditor's remuneration is as follows:

	2010 £	2009 £
Fees payable to the company's auditor for the audit of the company's annual accounts	15,000	15,000
Fees payable to the company's auditor and their associates for the other services to the Group		
– The audit of the company's subsidiaries pursuant to legislation	10,000	10,000
Total audit fees	28,000	25,000
– Tax services	22,700	14,675
– Other services pursuant to legislation	3,000	10,399
Total non-audit fees	25,700	25,074

10. EMPLOYEE INFORMATION

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

	2010 Number	2009 Number
Sales and administration	15	15
Research and development	11	12
Operations and logistics	3	3
	29	30

Notes to the Financial Statements

For the year ended 31 December 2010

10. EMPLOYEE INFORMATION (continued)

	2010 £	2009 £
Their aggregate remuneration comprised:		
Wages and salaries	1,586,594	1,650,821
Social security costs	167,769	174,098
Other pension costs	53,502	63,820
	1,807,865	1,888,739

Key management compensation

The directors are of the opinion that key management personnel during 2010 comprised the Board of Directors, the Chief Operating Officer, the VP of Sales and Marketing Worldwide and the VP Engineering. These persons had the authority and responsibility for planning, directing and controlling the activities of the Group. Remuneration for 2010 of these personnel is detailed below. During 2009 key management personnel comprised the same personnel.

	2010 £	2009 £
Their aggregate remuneration comprised:		
Wages and salaries	537,519	476,176
Social security costs	74,195	49,699
Other pension costs	12,521	13,092
	624,235	538,967

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

11. INVESTMENT REVENUE

	2010 £	2009 £
Interest revenue:		
Bank deposits	1,487	1,639

Investment revenue is all earned on cash and cash equivalents.

12. FINANCE COSTS

	2010 £	2009 £
Interest on bank overdrafts and loans	85	11

13. TAX

	2010 £	2009 £
Current tax:		
UK corporation tax on profits of the period	(304,537)	(479,247)
Deferred tax (note 21)	–	–
	(304,537)	(479,247)

Corporation tax is calculated at 28 per cent (2009: 28 per cent) of the estimated assessable profit for the year.

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

Notes to the Financial Statements

For the year ended 31 December 2010

13. TAX (continued)

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

	2010 £	2009 £
Loss before tax	(2,952,653)	(3,131,507)
At standard rate of 28% (2009: 28%)	(826,743)	(876,822)
Effects of:		
Tax effect of non deductible expenses	21,384	–
Effect of overseas tax rates	29,883	31,060
Tax effect of capital allowances in excess of depreciation	(4,564)	(1,269)
Net tax effect of research and development	45,925	43,563
Tax effect of other unrecognised temporary differences	4,147	11,028
Tax effect of unrecognised losses	408,488	492,305
Prior year adjustment	16,943	(179,112)
Actual current tax credit in the year	(304,537)	(479,247)

Factors affecting tax charge in future years

In June 2010 the UK Government announced that it would introduce legislation that would reduce the corporation tax rate to 27% with effect from 1 April 2011. This legislation was substantively enacted on 27 July 2010. The effective tax rate for the period to 31 December 2011 is expected to reduce accordingly.

14. EARNINGS PER SHARE

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

Earnings

	2010 £	2009 £
Earnings for the purposes of basic earnings per share being net loss attributable to equity holders of the parent	2,648,116	2,652,260

Number of shares

	2010 No.	2009 No.
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	751,804,821	528,453,250

15. INTANGIBLE ASSETS

No intangible assets are held at valuation in these accounts.

	SOFTWARE GROUP £	 COMPANY £
COST		
At 1 January 2009, 1 January 2010 and 31 December 2010	143,964	143,964
AMORTISATION		
At 1 January 2009, 1 January 2010 and 31 December 2010	143,964	143,964
CARRYING AMOUNT		
At 31 December 2010	–	–
At 31 December 2009	–	–

Notes to the Financial Statements

For the year ended 31 December 2010

16. PROPERTY, PLANT AND EQUIPMENT

No assets are held at valuation in these accounts.

GROUP

	Fixtures and equipment £
COST	
At 1 January 2009	322,547
Additions	10,927
Disposals	(58,505)
Exchange differences	(8,838)
At January 2010	266,131
Additions	15,126
Exchanges differences	1,150
At 31 December 2010	282,407
ACCUMULATED DEPRECIATION	
At 1 January 2009	222,778
Charge for the year	62,232
Disposals	(58,505)
Exchange differences	(103)
At 1 January 2010	226,402
Charge for the year	26,107
Exchange differences	874
At 31 December 2010	253,293
CARRYING AMOUNT	
At 31 December 2010	29,114
At 31 December 2009	39,729

At 31 December 2010 the Group had no contractual commitments outstanding for the acquisition of property, plant and equipment (31 December 2009: £nil).

17. SUBSIDIARIES

A list of the significant investments in subsidiaries, including the name, country of incorporation, proportion of ownership interest is given in note 32. The increase in investment in subsidiaries during the year is entirely due to capital contributions related to employee share options.

18. INVENTORIES

Group

	2010 £	2009 £
Raw materials	708,618	711,546
Finished goods	164,305	181,541
	872,923	893,087

The company holds no inventories at either balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2010

19. TRADE AND OTHER RECEIVABLES AND FINANCIAL ASSETS

Both the company and the Group have a single category of financial asset being loans and receivables. The Group's loans and receivables, which include cash and cash equivalents as well as trade receivables total £1,498,171 (2009: £1,975,665). Those of the Company include loans and cash and cash equivalents and total £1,330,260 (2009: £1,874,394).

Trade and other receivables

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Amount receivable for the sale of goods	13,734	7,592	–	–
Other debtors	350,732	507,950	11,085	–
EBT Loan	–	–	268,518	690,191
Prepayments	47,382	54,059	28,532	34,175
	411,848	569,601	308,135	724,366

During the year nothing was written off the value of the carrying amount of trade and other receivables (2009: £nil).

The directors consider that the carrying amount of trade and other receivables at 31 December 2010 approximates to their fair value.

Amounts receivable from Group undertakings are shown in note 32.

Cash and cash equivalents

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Cash and cash equivalents	1,484,437	1,968,072	1,330,260	1,874,394

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

Barclays Bank plc have given a guarantee in respect of £10,000 to HMRC on behalf of Cyan Technology Limited. As security for this guarantee, Barclays hold a legal charge over a deposit account held specifically for this purpose for £10,000.

20. FINANCIAL RISK MANAGEMENT

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

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates as it undertakes certain transactions denominated in foreign currencies. This is managed through careful control of the Group's foreign currency balances. There has been no change to the Group's exposure to market risks or to the manner in which it measures and manages the risk. The Group and company had no material foreign exchange exposures at 31 December 2010 or 31 December 2009 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 no longer limited after the collapse of many banks in the worldwide economy. It will become increasingly important to only deal with reputable banks and try as far as possible to ensure the security of funds invested in treasury.

At 31 December 2010 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 £83 (2009: £3,994) which are past due at reporting date and not impaired. Nothing is 0-90 days overdue (2009: £941) and £83 is over 90 days overdue (2009: £3,053); the remaining balance is not yet due. There was no allowance for doubtful debts at 31 December 2010 (2009: £nil). There was no bad debt charge for the year (2009: £nil). The company has made a provision against the full amount of the debt owed to it by its subsidiary companies totalling £21,078,423 (2009: £18,553,900). These amounts are not overdue. Since the Group holds no collateral, the maximum exposure to credit risk is the carrying value of trade receivables.

Liquidity risk

Liquidity risk is discussed within note 22.

Notes to the Financial Statements

For the year ended 31 December 2010

21. DEFERRED TAX

No deferred tax liabilities and assets have been recognised by the Group in the current or prior reporting period. At the balance sheet date an unrecognised deferred tax asset relating to tax losses and accelerated capital allowances of £2.9m (2009: £1.4m) existed. No deferred tax asset has been recognised due to the unpredictability and uncertainty of future profit streams.

22. OTHER FINANCIAL LIABILITIES

Both the Group and the company have only one category of financial liability being trade payables held at amortised cost. Those of the Group totalled £50,620 (2009: £37,549) and those of the company totalled £17,357 (2009: £11,564).

Trade and other payables

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Trade payables and accruals	283,872	229,332	36,857	41,500

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs all of which are payable within a year. The average credit period taken for trade Report and Financial Statements 2010 32 Cyan Holdings plc purchases is 25 days (2009: 18 days). The Group has no incurred interest charges for late payment of invoices during the year (2009: £nil). The Group has financial risk management policies in place to ensure that all payables are paid within agreed credit timeframes. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual 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.

23. SHARE CAPITAL

	2010	2009
	number	number
Authorised:		
Ordinary shares of 0.2 pence each	1,500,000,000	800,000,000

	2010	2009
	£	£
Issued and fully paid:		
923,832,983 (2009: 654,782,659) ordinary shares of 0.2 pence each	1,847,666	1,309,565

On 17 September 2010 the Company completed a placing the result of which 257,333,333 ordinary shares of 0.2 pence each were issued at a price of 0.75 pence per share to raise £1,796k after expenses. The funds from the placing were raised to develop and execute on the Group's new strategy. No shares (2009: 2,415,250) were issued as a result of the exercise of share options.

On 1 October 2010, the Company issued a total of 10,033,800 ordinary shares of 0.2 pence each. This was made of issues as follows:

3,088,221 ordinary 0.2 pence shares purchased by Dr John Read

2,777,778 ordinary 0.2 pence shares purchased by Simon Smith

556,690 ordinary 0.2 pence shares purchased by Kenn Lamb

3,611,111 ordinary 0.2 pence shares issued to Cenkos Securities as settlement of an invoice

On 2 November 2010, Kenn Lamb and Dr John Read purchased shares as part of the monthly directors' share plan detailed in the Cyan circular of September 2010. Kenn Lamb purchased 511,246 ordinary 0.2 pence shares and Dr John Read purchased 285,103 ordinary 0.2 pence shares under this scheme in November 2010.

On 1 December 2010, Kenn Lamb and Dr John Read purchased shares as part of the monthly directors' share plan detailed in the Cyan circular of September 2010. Kenn Lamb purchased 569,342 ordinary 0.2 pence shares and Dr John Read purchased 317,500 ordinary 0.2 pence shares under this scheme in December 2010.

On 24 January 2011 the Company completed a subscription the result of which 72,000,000 ordinary shares of 0.2 pence each were issued at a price of 1.25 pence per share to raise £900,000.

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

In August 2008, 25,000,000 warrants were issued to Cenkos, the company's broker, the exercise price of which is £0.01 per share and the exercise period is from the date of admission and ending on the fifth anniversary from date of grant.

Unapproved share options

On 1 December 2005, the company granted 2,529,322 share options, the exercise price of which was £0.22 per share and the exercise period was from 7 December 2005 to 7 December 2010.

Notes to the Financial Statements

For the year ended 31 December 2010

24. SHARE PREMIUM ACCOUNT

	Group £	Company £
Balance at 1 January 2009	16,391,994	16,391,994
Premium arising on issue of equity shares	2,852,327	2,852,327
Expenses of issue of equity shares	(218,031)	(218,031)
Balance at 31 December 2009	19,026,290	19,026,290
Premium arising on issue of equity shares	1,497,812	1,497,812
Expenses of issue of equity shares	(145,477)	(145,477)
Balance at 31 December 2010	20,378,625	20,378,625

25. OWN SHARES HELD

	Group £
Balance at 1 January 2009, 31 December 2009 and 31 December 2010	(690,191)

26. SHARE OPTION RESERVES

	Group £	Company £
Balance at 1 January 2009	268,852	268,852
Movement in the year	111,034	111,034
Balance at 31 December 2009	379,886	379,886
Movement in the year	97,113	97,113
Balance at 31 December 2010	476,999	476,999

27. RETAINED EARNINGS

	Group £	Company £
Balance at 1 January 2009	(13,904,019)	(15,416,064)
Net loss for the year	(2,652,260)	(2,362,531)
Balance at 1 January 2009	(16,556,279)	(17,778,595)
Net loss for the year	(2,648,116)	(2,846,158)
Balance at 31 December 2010	(19,204,395)	(20,624,753)

28. TRANSLATION RESERVE

	Group £
Balance at 1 January 2009	(373,948)
Exchange differences on translation of foreign operations	145,834
Balance at 31 December 2009	(228,114)
Exchange differences on translation of foreign operations	(66,140)
Balance at 31 December 2010	(294,254)

Notes to the Financial Statements

For the year ended 31 December 2010

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2010 £	2009 £
Operating loss for the year	(2,954,055)	(3,133,135)
Adjustments for:		
Depreciation of property, plant and equipment	26,017	62,232
Share-based payment expense	97,113	111,034
Operating cash flows before movements in working capital	(2,830,925)	(2,959,869)
(Increase)/decrease in inventories	20,164	(45,734)
(Increase)/decrease in receivables	(17,038)	48,035
Increase/(decrease) in payables	54,540	(45,363)
Cash reduced by operations	(2,773,259)	(3,002,931)
Income taxes received	479,328	602,851
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(2,293,931)	(2,480,080)

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

30. OPERATING LEASE ARRANGEMENTS

The Group as a lessee

	2010 £	2009 £
Minimum lease payments under operating leases recognised as an expense in the year	92,488	82,132

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:

	2010 £	2009 £
Within one year	82,898	85,078
In the second to fifth years inclusive	232,766	236,579

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

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

The Company as a lessee

	2010 £	2009 £
Minimum lease payments under operating leases recognised as an expense in the year	55,000	47,837

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:

	2010 £	2009 £
Within one year	55,000	55,000
In the second to fifth years inclusive	176,458	231,458

31. CONTINGENT LIABILITIES

Neither the Group nor the Company are aware of any contingent liabilities outstanding as at the date of this report (2009: none).

Notes to the Financial Statements

For the year ended 31 December 2010

32. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company has a share option scheme for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of all the company's shares on the date of grant. The total vesting period is 4 years, with 25% of the options vesting each year. 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:

	2010		2009	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	9,028,550	0.023	13,618,800	0.031
Granted during the period	18,650,561	0.012	1,350.000	0.023
Forfeited during the period	(783.750)	0.009	(5,525,000)	0.023
Exercised during the period	–	–	(415,250)	0.023
Outstanding at the end of the period	26,895,361	0.019	9,028,550	0.023
Exercisable at the end of the period	3,784,900	0.0131	2,141,450	0.023

The options outstanding at 31 December 2010 had a weighted average exercise price of £0.019 and a weighted average remaining contractual life of 103 months. In 2010, options were granted on 20 January, 7 July, 5 October and 21 December. The aggregate of the estimated fair values of those options is £104,118. In 2009, options were granted on 24 June and 6 June. The aggregate of the estimated fair values of the options on those dates is £13,815.

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

	2010	2009
Weighted average share price	1.09p	2.35p
Weighted average exercise price	1.09p	2.35p
Expected volatility	101%	73%
Expected life	4 years	4 years
Risk free rate	0.49%	2.98%
Expected dividend yield	0%	0%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 48 months. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total expenses of £97,113 and £111,034 related to equity-settled sharebased payment transactions in 2010 and 2009 respectively.

33. RELATED PARTY TRANSACTIONS

	Company 2010 £	Company 2009 £
As at 1 January	381,886	270,852
Capital increase in respect of share based payments	97,113	111,034
As at 31 December	478,999	381,886

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

During the period, the Group and Company paid £12,500 (2009: £30,000) to Pentland Services in respect of non-executive director services of David Gutteridge. Pentland Services is a related party of the Company by virtue of the fact that David Gutteridge has an equity interest in it.

Notes to the Financial Statements

For the year ended 31 December 2010

33. RELATED PARTY TRANSACTIONS (continued)

Group

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

Cyan Technology Limited

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

Cyan Asia Limited

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

Company

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

	2010	2009
Loan to related parties		
Cyan Technology Limited	18,760,327	16,563,991
Cyan Asia Limited	2,318,097	1,989,909
	21,078,423	18,553,900

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 2010 these amounted to £346,209 (2009: £346,245).

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