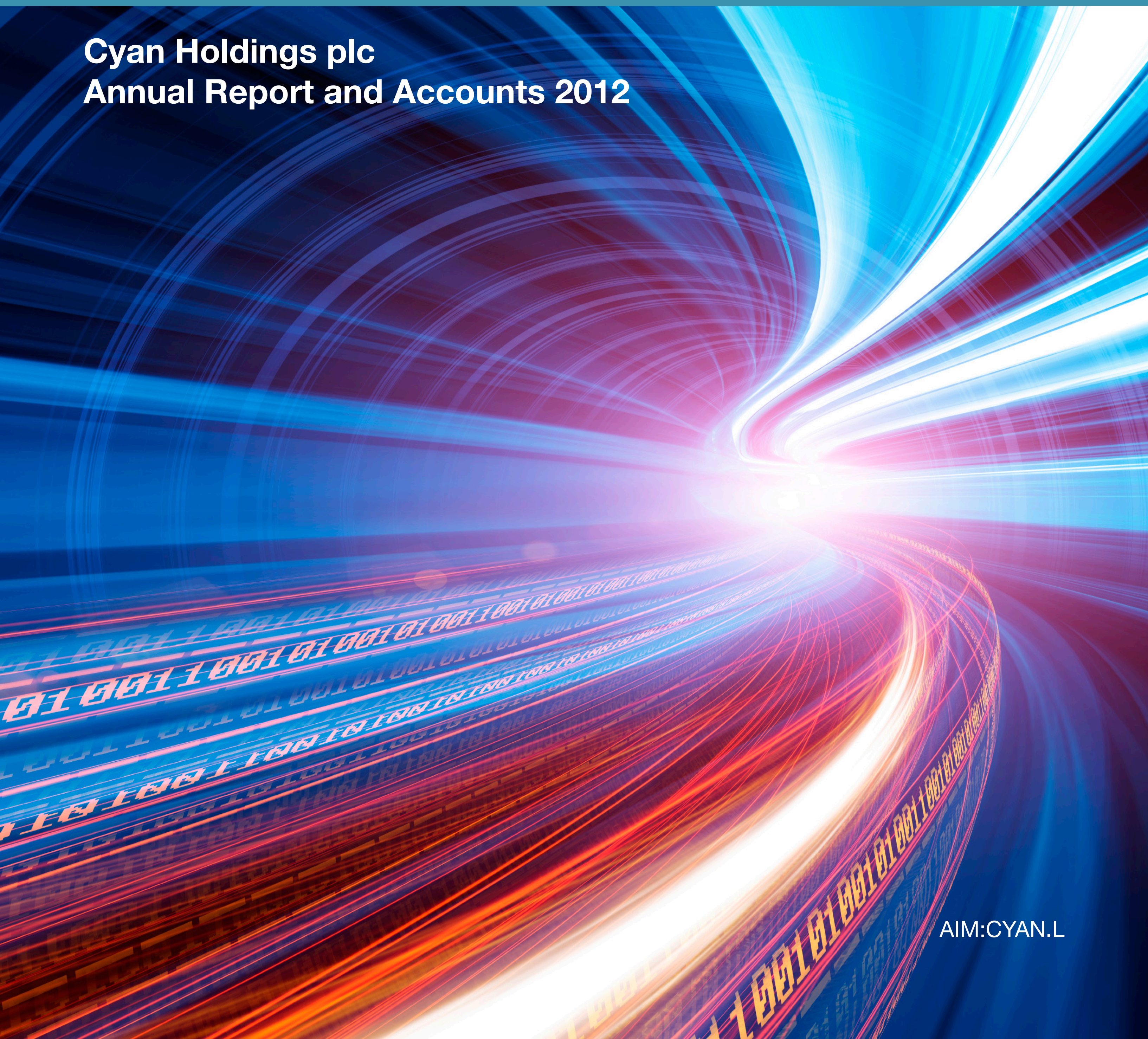
Cyan Technology

Smart Energy Solutions



Cyan Holdings plc
Annual Report and Accounts 2012

AIM:CYAN.L

Overview

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

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

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

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

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

Contents

Our business

02 Key Achievements
03 Chairman's Statement
09 Business Model for Electricity Metering

Our Governance

11 Board of Directors and Senior Management Team
13 Directors' Report
16 Corporate Goverance Statement
17 Remuneration Committee Report
19 Directors' Responsibilities Statement
20 Independent Auditors' Report

Our Financials

22 Consolidated Income Statement
22 Consolidated Statement of Comprehensive Income
23 Consolidated Balance Sheet
24 Consolidated Statement of Changes in Equity
25 Company Balance Sheet
26 Company Statement of Changes in Equity
27 Consolidated Cash Flow Statement
28 Company Cash Flow Statement
29 Notes to Financial Statements
51 Officers and Professional Advisors

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Key Achievements

- Significant progress on Tamil Nadu Electricity Board tender
- Appointment of telecoms and smart metering expert John Cronin as Executive Chairman
- Strategic partnership with Larsen & Toubro to provide Indian utility customers with Advanced Metering Infrastructure ("AMI") solutions
- Substantial metering order of over US$1M from Indian partner
- Deployment of smart metering pilots with leading integrated power company in Mumbai and for Power Grid Corporation of India in Puducherry
- Equity fund raising during the year of £3.8M before expenses (including £1.7M from the placing in December 2011 which was concluded in January 2012)

Financial highlights

- Decrease in revenue during 2012 to £315,194 (2011: £455,591)
- Operating loss for the year reduced to £3,103,622 (2011 restated: £3,575,000)
- Cash balance at end of year £1,618,574 (2011: £364,590)

Post period end highlights

- Operations established in India to drive and support future growth, including hire of Country Manager
- Deployment of AMI pilot with large public utility in the north of India
- Equity fund raising of £1M before expenses in April 2013 to strengthen balance sheet and fund continued expansion of operations

Chairman's Statement

"By the end of 2012, Cyan had successfully positioned itself as a low cost, low power wireless solutions provider for the rapidly growing Machine to Machine (M2M) markets. We have created many smart metering opportunities in India through our eco-system programme which includes strategic partners both at a meter manufacturer and system integrator level, thus giving us first mover advantage in deploying many pilots throughout the country. This now offers Cyan an opportunity to deliver significant revenue growth, both in India and other emerging markets worldwide."

Operational Review

At the beginning of 2012, it was the Board's view that shareholder interests were best served by focussing our limited resources on doing everything possible to ensure our meter manufacturer partners are awarded a significant share of the 1.5 million unit Tamil Nadu Electricity Board ("TNEB") tender, which is the first part of an overall program to install/replace 18 million meters. This opportunity continues to represent a potentially significant turning point for the Company and will strengthen our position to establish Cyan's Automated Meter Reading ("AMR") and Advanced Metering Infrastructure ("AMI") solutions as the market standard in India.

In February 2012, Cyan continued to strengthen its strategic partnerships in the Indian energy market with the announcement that it was entering into a Strategic Partnership Agreement with Larsen & Toubro ("L&T"). L&T is a recognised leader in the energy and utilities sector with proven products and a Tier 1 reputation. The alliance with Cyan was to enable L&T to offer an 865MHz interoperable smart metering solution to a number of projects identified in India and this has been the case.

In May 2012, we announced receipt of an order exceeding US$1M, from a major metering customer in India. After the successful integration of CyLec® products, the customer placed the order to fulfil several projects across a range of utilities. Due to delays, in particular with the TNEB tender process, we announced in December that fulfilment of this order will now be in 2013.

During the second quarter of 2012, we announced the submission deadline for the TNEB tender for 1.5 million units and that five meter manufacturers had submitted samples based on Cyan's CyLec® solution. By June, four of the Cyan partners had been formally authorised to advance to the next stage of the tender, installation of 500 unit pilots in Trichy (Tiruchirappalli). Throughout September and October, Cyan continued to support the partners including working with them on the ground in Trichy as well as from Cambridge to ensure the pilots were successfully installed. After the pilots were installed and commissioned, TNEB began evaluations, including on site meter readings. Cyan's technology performed reliably, the technical field trials in Trichy are now complete and we believe our solution is very well placed to result in orders for our meter manufacturer partners. As TNEB is a public utility, it is required to comply with the Indian government tendering regulations to ensure that the decision is arrived at in a fully transparent manner and given the substantial monies involved in this tender, the tender attribution decision has been delayed.

Chairman's Statement

As Cyan is not directly tendering to TNEB, we were asked by our meter manufacturer partners in the second half of 2012 to limit the updates on the tender process we put into the public domain (through RNS) in order to protect their competitive positions and after taking local advice we have endeavoured to comply with this request. The TNEB tender document states that inter-operability is required (ie. TNEB can buy meters from multiple suppliers and they will seamlessly work together). Based upon the companies that have bid on the TNEB tender and deployed pilots in Trichy, our view is that the Cyan enabled meters are the only way to achieve the tender specification regarding inter-operability.

In December 2012, we announced that another strategic meter manufacturer partner had deployed Cyan's AMI solution as a pilot for a leading integrated power company in Mumbai. The pilot involved deploying single and three phase CyLec® enabled meters in Mumbai for evaluation by the power company for three to six months.

Since I joined Cyan in March 2012, the Company has made significant progress on the TNEB tender and we believe our solution is very well placed and should result in significant orders for our meter manufacturer partners over the very near term. However, the TNEB tender process has admittedly taken much longer than either the Company, or our local meter manufacturer partners, had projected. Furthermore, as our product development and sales management efforts have been heavily focussed on supporting our local partners on this tender, as well as developing the electricity metering business overall in India, our lighting revenues in China have inevitably declined. This is reflected in revenues for the period of £315,194 versus £455,591 for the corresponding period last year and I recognise that shareholders might have expected further progress on this front.

Metering

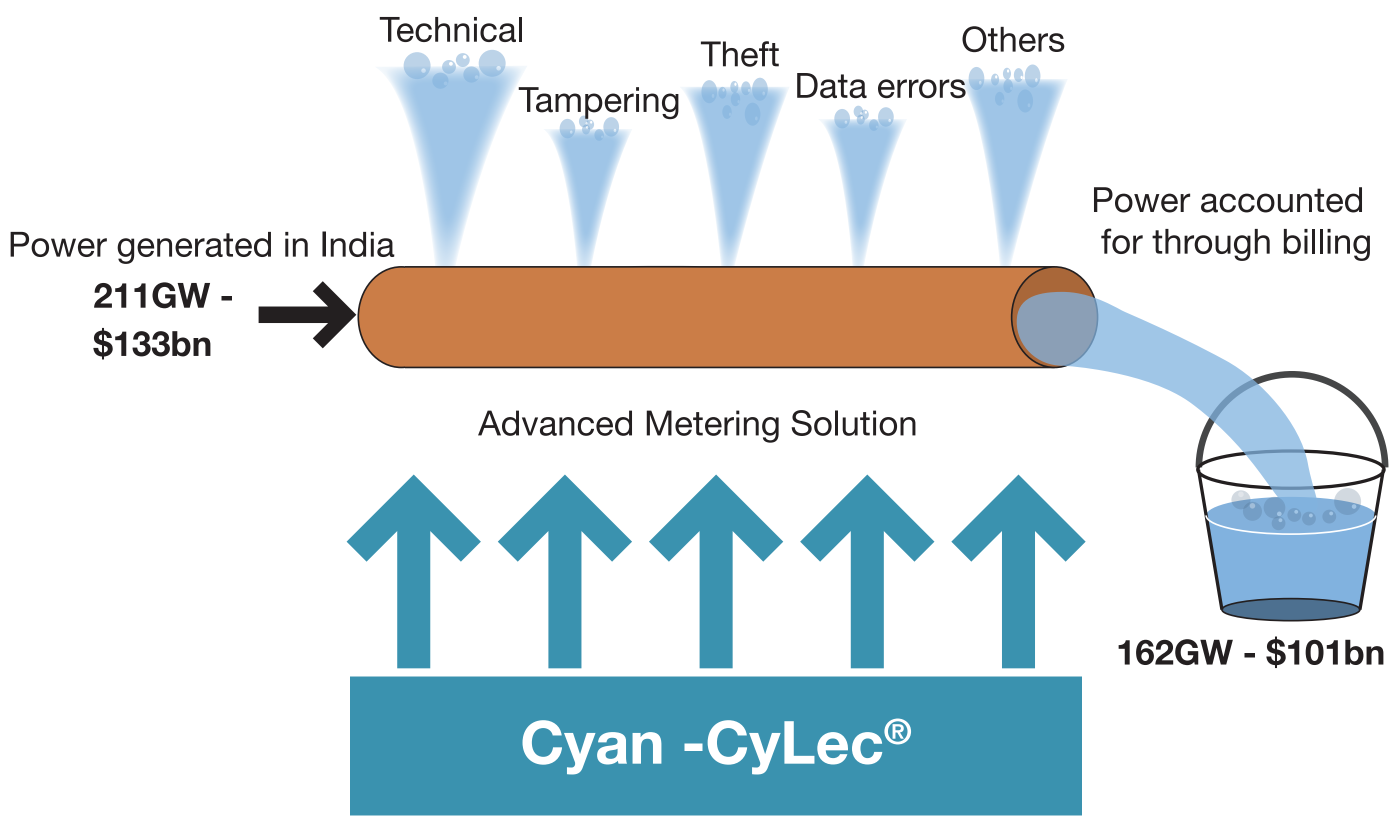
Cyan's focus has been dominated by the Indian smart metering market with its key strategy of building key strategic partnerships and supporting its meter manufacturing partners on pilot projects. The Indian market is undoubtedly a huge opportunity for the Company, with an estimated 120-200 million meters that need to be installed/replaced over the next 10 years as well as the Indian utilities' pressing need to reduce losses due to theft of electricity.

One of the obstacles the utilities face is collecting data from millions of meters deployed in rapidly growing and typically unplanned urban conditions. It is often problematic trying to locate and gain physical access to the meters and the process is at best slow or error prone. Cyan's AMR and AMI solutions address these key issues by providing high quality and timely information from each meter. Cyan's 865MHz based solution has been specifically designed to cope with demanding specifications such as a communication range of more than 60 meters and to be able to be read through concrete walls in order to cope with the dense urban conditions in India. In comparison, a 2.4GHz Zigbee solution has been observed to struggle to achieve a reliable communication range greater than 30 meters in the same challenging conditions.

India's transmission and distribution losses are among the highest in the world. When non-technical losses such as energy theft are included in the total, these losses increase to as high as 65% in some Indian States against an overall average of 30%-40%. The financial loss has been estimated at 1.7% of the national GDP. To address the issue of Aggregate Transmission and Commercial (AT&C) losses, the Government of India implemented an Accelerated Power Development Reforms Programme (APDRP). Its key objectives were to reduce AT&C losses, improve customer satisfaction, introduce greater transparency and improve the financial viability of the State Distribution Companies (SDCs). It was against this backdrop that the Restructured APDRP (R-APDRP) was conceived in September 2008 for the 11th Five Year Plan (2007-12). The tender that Cyan's meter manufacturer partners are bidding for in Tamil Nadu is funded under this R-APDRP program. Monies are provided by the Indian Government as loans for the provision of advanced metering solutions and once in place, the loans are converted into grants.

As the diagram below illustrates, Frost & Sullivan have estimated that US$32Bn of power generated in India is not accounted for through billing to customers.

India's Power Operational and Revenue Losses
Power loss/leakage of 49GW equivalent to $32bn or ~1.7% of GDP



Frost & Sullivan's Inputs on India's Crippling Power Infrastructure, Published: 24 Aug 2012
http://www.frost.com/sublib/display-market-insight-top.do?id=265368525

With a number of the leading meter manufacturer partners in India now offering CyLec® enabled smart meters, Cyan has a strong foothold in the Indian market. In November, we announced that one of our partners was participating in a high profile smart grid project in Puducherry, India. The smart grid pilot project is being led by the Power Grid Corporation of India Limited (PGCIL), a government of India enterprise. The project was to install an AMI solution in houses throughout Puducherry to support the electricity department's objective to save power.

Chairman's Statement continued

Cyan provides a platform product (CyLec®) to enable deployment of AMI. AMI is an architecture for automated end-to-end two way communications between a utility company and electricity meters (smart meters). The CyLec® solution provides utilities with real time data about power consumption and allows customers to make informed choices about energy usage based on price at time of use. The Cylec® solution includes hardware and software to enable this communication and allows easy interfacing to existing meter data management (MDMS), billing systems and other Smart Grid infrastructure monitoring tools within the utility such as outage detection and load management. Consumer meter tamper and electricity theft detection features are included and this helps utilities ensure they collect revenue for electricity that is used by consumers. The CyLec® solution has been proven to be easy to integrate to existing meters from various metering companies to upgrade them to be AMI compatible smart meters.

Lighting

Cyan has continued to receive small lighting orders in China during the year. As explained above, the Board determined in early 2012 that shareholders' interests were best served by focussing the Company's limited resources on metering in India and therefore progress on lighting has been disappointing, which has in turn resulted in lower overall revenues for 2012.

Machine to Machine ("M2M")

Cyan's technology allows networked devices to exchange information and perform actions without the manual assistance of humans. This automated communication between devices comes under a broad label of Machine to Machine ("M2M") or the Internet of Things. Our target markets, wireless metering and lighting control, are two applications of this type of communication. However, M2M is used in telemetry, data collection, remote control, robotics, remote monitoring, status tracking, road traffic control, offsite diagnostics and maintenance, security systems, logistic services, fleet management, telemedicine, as well as smart metering and lighting control.

Cyan provides technology and is a service provider delivering the global, wireless mesh networks specifically designed for M2M communications.

Financial Review

During 2012, Cyan announced its involvement in a number of pilot projects which demonstrated significant progress towards the adoption of our metering products in India. Our focus was to ensure we had the products and resource to support our partners. Furthermore, demand for AMI products required increased development work to integrate Cyan's AMI solution into the high level systems.

Despite this operational progress, commercial orders remained below the level required to sustain the business. In 2012, the company raised approximately £3.8 million before expenses, by way of share placings (including £1.7 million from the placing in December 2011 which was concluded in January 2012). In addition to the placings the company received a total of £271k from the exercise of warrants during the second half of the year. This income provided the Company incremental financial resources for general working capital, customer support activities in India and further development to integrate Cyan's AMI solution into high level enterprise software.

Revenue decreased from £455,591 in 2011 to £315,194 in 2012. Operating loss for the year ended 31 December 2012 was £3,103,622 (2011 restated: £3,575,000) and net loss decreased to £2,876,772 (2011 restated: £3,227,077). This was predominantly due to decreased staff costs. Cash at year end was £1,618,574 (2011: £364,590).

In April 2013, the company announced that it had raised a further £1 million before expenses. The Board felt that this additional funding was crucial not only to support the expansion of activities into India, but also to strengthen the balance sheet at a key time in the tender process of TNEB. Included in this placing was an issue of a further 74,444,444 warrants with an exercise price of 0.65 pence per share, however shareholder approval of this warrant issue will be sought at the Company's AGM in June 2013.

Board Changes

"It was with great sorrow that the board learned of the death of Kenn Lamb, formerly CEO of the company, on 5 July 2012 after a long illness. Kenn had received successful treatment over a number of years but in 2010 and 2011 needed further treatment, operations and hospitalisation which increasingly affected his mobility and ability to lead Cyan. As a result he gave notice of resignation and stepped down at the beginning of 2012.

Kenn initially became involved with Cyan as a consultant in October 2006 reviewing the strategy, products and sales organisation. In March 2007 he was offered the position of CEO to implement his proposals, and accepted. The initial micro-controller focus of the company changed to supplying modules but it became apparent that the real opportunity was as a supplier of bespoke 'smart' systems solutions. Building on the market knowledge gained through presence in China an RF mesh solution for street lighting was developed and deployed in several pilots. However further commercial engagement was extremely slow and when interest was seen for applications in smart metering the focus of product and market development was changed and, along with this the company began to develop a presence in India. This has now grown to implementation of several major pilots and a leading position in bidding on supply for a large utility in the SE of India. It is sad that Kenn will not see the outcome of this major strategy evolution.

Kenn showed energy and compassion in his leadership. He was a 'larger than life' charismatic character and always a pleasure to work with. He is much missed by the company and more so by his wife, and young family. Our thoughts continue to be with them as they grow up without him."

John Read, Former Chairman of Cyan

Chairman's statement continued

Outlook

At the time of preparation of this report to shareholders, I am disappointed that we have not been able to announce the award of the TNEB tender to Cyan's meter manufacturer partners. As noted above, the tender is now at an advanced stage and all the technical evaluations are complete. Based on Cyan's interoperable solution, our meter manufacturer partners are very well placed to be awarded this tender, which will then in turn give them a strong position for the second and larger tender that we understand will follow on shortly afterwards.

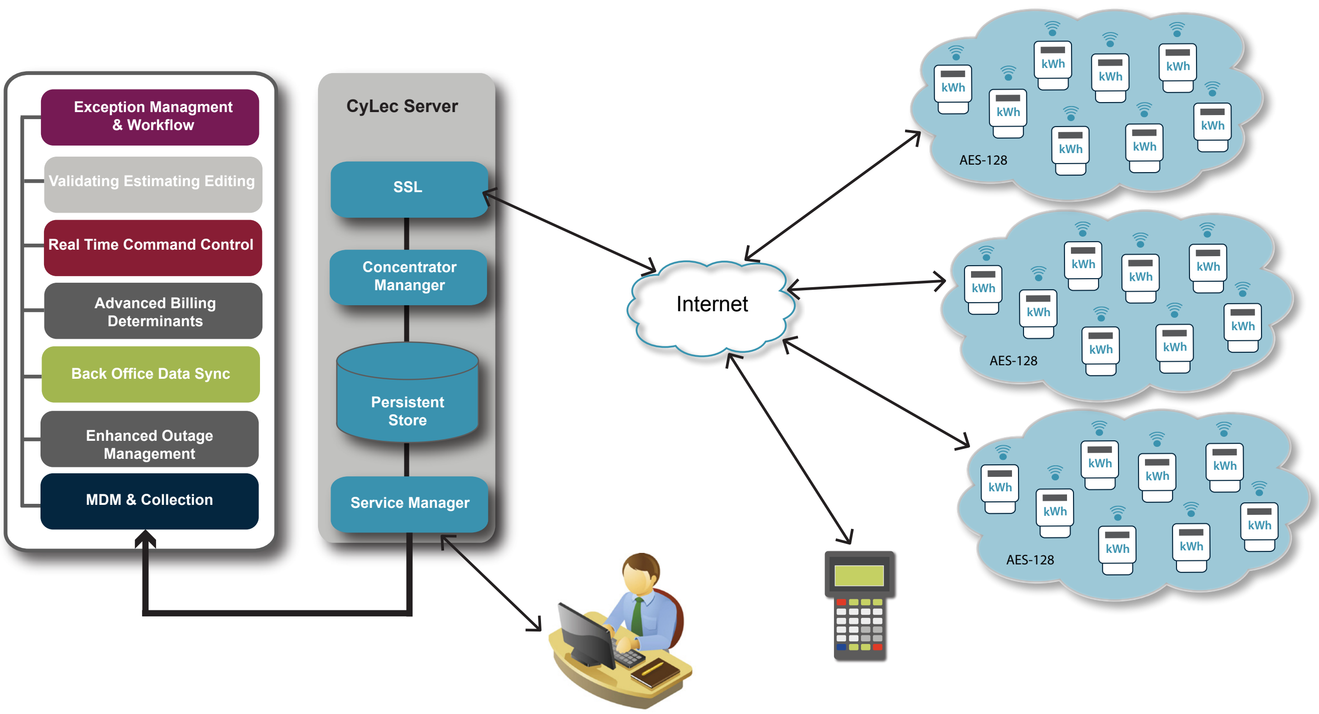
The award of the TNEB tender to Cyan's partners will be transformational in terms of our competitive position in the Indian metering market as well as putting Cyan on a solid financial foundation. The Cyan Board continues to believe that it's in shareholders' interest to focus resources on the Indian metering market and as I stated in my first report back in September 2012, I appreciate the continued patience of shareholders and continue to look forward to delivering them outstanding value.

John Cronin
Executive Chairman
30 May 2013

Business Model for Electricity Metering

Cyan provides a communication platform that enables utilities to transform their power grid infrastructure into a smart grid that intelligently controls millions of electricity meters, providing timely information and control to both utilities and consumers.

CyLec® powers the next generation of advanced RF meters which enable power utilities to reduce losses and increase revenues through reliable and secure collection of consumer energy consumption data.



Cyan's business model is to provide hardware and software that enable the smart grid. Our revenue derives from the following principal elements:

- A small hardware communication module that is integrated into the electricity meter of our meter manufacturer partners (such as Larsen & Toubro or Capital Meters). With the addition of this module, the meter is then enabled to communicate back to the utility's data centre.
- A further piece of hardware called a Data Concentrator Unit ("DCU"). This allows the meters in the consumers' homes to communicate with each other over a self-forming, self-healing mesh network.
- Cyan has adopted sub-GHz technology which we believe is uniquely suited to developing countries such as India.
- Software "CyLec® Server" that sits in the utility's data centre and communicates with the DCU (and therefore all the individual meters) over an internet connection (typically a mobile network).

Business Model for Electricity Metering continued

Cyan does not provide software or hardware directly to the utility and we operate through local partners. Our revenues are derived from sales to local meter manufacturers or system integrators (SIs). Currently most of our revenues come from the former, but over time we expect SIs to take a lead role in providing a complete solution to utility customers and will bring in software/hardware from Cyan and meter manufacturers. Our SI partners have indicated that they expect the Indian market to evolve to one where they take over the relationship with the consumers on behalf of the utilities and (in exchange for a per consumer monthly fee) will provide the meters, read them, collect payments and manage the customer relationships. This will allow the utilities to focus on the power generation and distribution element of their business. We believe that our approach to the market is ideally suited to the dynamics of emerging countries such as India where local partnerships, local manufacturing and price competitive hardware are critical.

Cyan licenses its CyLec® software on the basis of a Cyan hosted “Software as a Service” (SaaS) solution or to the SI partner to manage and host themselves. In both cases, we receive a recurring revenue stream that is based on both the size of the customer’s installation as well as the features (such as tamper alerts and remote disconnect) that have been enabled for the utility customer.

Board of Directors

John Cronin
Executive Chairman (aged 57)
John Cronin is a seasoned and successful professional. He has been instrumental in mergers and acquisitions worldwide, raised equity, debt facility and vendor financing funding between $50m and $900m and set up operations in international markets. In addition he has created significant value for shareholders with 4 Company exits in Picochip, Azure Solutions, i2 and Netsource Europe totalling $600m.

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

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

Dr John Read
Non-Executive Director (aged 71)
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 Entrepeneurship 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 Chairman of the semiconductor company Si-Light Technologies Limited. He become a director of Cyan in November 2005, was appointed Chairman in October 2007, and Executive Chairman in January 2012. He stepped down as Chairman at the Company's AGM in May 2012.

Simon Smith
Non-Executive Director (aged 46)
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 advisor in 2007, Simon held the position of Chief Financial Officer / Director of Finance at multi-national businesses both in the UK and USA since 1997 and his experiences include multiple business acquisitions/disposals, fund raising, business planning, cash management and customer contract negotiation.

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

Senior Management Team

Bijan Mohandes

VP Worldwide Sales & Marketing

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

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

Stephen Page

VP Engineering

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

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 2012.

Principal acitivity 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 acitivity of the Company is that of a holding Company. A review of the business can be found in the Chairman's Statement.

Principal risks and uncertainties

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

Economic

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

Financial

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

Business Strategy

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

Competition

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

Dependence on key management personnel

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

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

Key performance indicators

During 2012, the Group incurred an average monthly operating cash outflow of £278,000 (2011: £296,000) and incurred a loss for the year of £2,876,772 (2011: £3,227,077).

Revenue in 2012 was £315,194 (2011: £455,591). The group had an average of 23 staff in 2012 (2011: 29).

Going concern

The directors have prepared a business plan and cash flow forecast for the period to 31 December 2014 which, together, represent the directors' best estimate of the future development of the Group. The forecast contains certain assumptions, the most significant of which are the level and timings of sales and the gross margin on those sales, together with the need to secure additional finance in order to fund working capital within the next twelve months.

At the time of the preparation of these financial statements, the sales forecast includes a potential large contract with an Indian utility customer (Tamil Nadu Electricity Board or TNEB). The TNEB tender has been issued for 1.5M units and the directors believe that the Group is well placed to be awarded contracts (through local meter manufacturer partners) for the majority, or possibly all of the tender. If successful, the directors believe that delivery on the tender would commence in Q3 2013 and that this contract would be transformational for the Group in terms of both customer and shareholder perception. The directors' understanding is that TNEB have plans to install/replace 18M meters over a multi-year period and further tenders towards this goal will be issued in the second half of 2013. However the variables are such that there is a material uncertainty that forecast sales will be achieved. The Group has other sales opportunities in the pipeline (including multiple installed pilots in India) that are being progressed in parallel.

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

At the Group's General Meeting held on 2 August 2012, resolutions were passed to: (i) complete placings of £2.1 million (before expenses) through the issue of 603 million new ordinary shares; and (ii) issue 301 million warrants to the placees that have an exercise price of 0.5p and a 12 month exercise window until 1 August 2013. If exercised in full, the warrants would provide the Group with additional funding of £1.5 million (before expenses). Given the commercial prospects at the time of the preparation of this report (particularly TNEB described above), the directors consider that the Group has a good opportunity to see the share price remain above 0.5p before 1 August 2013 and therefore benefit from the exercise of the warrants. At the time of writing this report a total of 87 million of these warrants have been exercised, raising a total of £433k of additional funds. In addition to this in April 2013 the board announced that it had raised £1 million before expenses to support the expansion of operations in India and strengthen the balance sheet.

Directors' Report continued

If the share price is at or below 0.5p on 1 August 2013, it is likely that the remainder of the 0.5p warrants will not be exercised and the Group may need additional funding from another source. There remains a significant risk that the required level of funding will not be received in the necessary timescales or at all. This constitutes a material uncertainty.

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

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

Dividends

The directors do not recommend the payment of a dividend (2011: £nil). The Group has no plans to adopt a dividend policy in the immediate future and all funds generated by the Group will be invested in the further development of the business, as is normal for a Company operating in this industry sector and at this stage of its development.

Capital Structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 22. At 31 December 2012, the Company had one class of ordinary shares of 0.01 pence each, which carried no right to fixed income and represented 100% of the issued share capital of the Company. Each share carried the right to one vote at general meetings of the Company. The Company's capital structure consisted only of issued share capital, which it manages to maximise the return to shareholders. On 6 January 2012, the Company underwent a share restructure the effect of which was to reduce the nominal value of the Company's shares from 0.2 pence per share to 0.01 pence per share. All rights attached to the new shares remain the same following this restructure.

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

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

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

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Corporate Governance Statement on page 16.

At the same time as the Company's share restructure in January 2012, it adopted a new set of Articles whereby, in accordance with the Companies Act 2006 it no longer has an authorised share capital.

Directors and their interests

The directors who served the Company throughout the year, unless otherwise stated, were as follows:

Executive Directors
John Cronin (Executive Chairman) – appointed 20 March 2012
Non-Executive Directors
Dr John Read
Simon Smith

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

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

The interests of the directors in the shares of the Company are shown in the remuneration committee report on page 17.

Research Design and Development

The Group is committed to the research, design and development of mesh based flexible solutions for lighting, utility metering and industrial telemetry. The costs relating to this which have been written off in the year amounted to £1,141,005 (2011: £1,865,982).

Significant Holdings

The Company had been notificed of the following voting rights as a shareholder in the Company at 31 December 2012:

	Percentage of voting rights and issued share capital	Number of ordinary shares	Nature of holding
Legal and General	9.22%	214,532,967	Direct
P Lobbenberg	7.90%	183,919,780	Combined
Brewin Dolphin Limted	6.45%	150,094,451	Direct
Peter Bottomley	3.82%	88,904,736	Combined
Barnard Nominees	3.70%	86,012,572	Direct

During the period between 31 December 2012 and 16 May 2013, the Company received one notification under Chapter 5 of Disclosure and Transparency Rules from Legal and General advising of a reduction in voting rights crossing the threshold from 9% to 8%.

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 15 to the accounts.

Supplier payment policy

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

The average credit period taken for trade purchases is 20 days (2011: 25 days).

Charitable and political donations

Charitable donations for the year were £103 (2011: £nil) and no political donations were made during the year (2011; £nil).

Auditor

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

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

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

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

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

John Cronin
Executive Chairman
30 May 2013

Corporate Governance Statement

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

Board composition and responsibility

At 31 December 2012 the Board comprised three directors, two of whom were independent Non-Executive Directors.

On 20 March 2012, John Cronin was appointed as Non-Executive Director (Chairman Designate), and took over from Dr John Read as Executive Chairman at the Company's AGM in May 2012. He is a member of the audit, nominations and remuneration committees.

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

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

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

Board Committees

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

Board Nominations

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

Relationships with Shareholders

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

Remuneration Committee Report

Unaudited Information

Remuneration committee

The Company has established a Remuneration Committee. All three directors were members of the committee during 2012 and the committee was chaired by Dr John Read.

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

Remuneration policy for the executive directors

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

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

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

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

Basic Salary

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

Benefits-in-kind

The executive directors are entitled to 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 bonus payments were made for the year ended 31 December 2012 (2011: £70,000). The Committee has the power to grant bonuses at its discretion.

Share options

During the year ended 31 December 2007, following notification in the circular to the shareholders for the Extraordinary General Meeting on 24 August 2007, the Company commenced work on setting up an Employee Benefit Trust. During the year ended 31 December 2012, there were no issues to directors under this scheme (2011: no issues).

The performance criterion that must be met is based on the fact that no director will gain via the Employee Benefit Trust until the share price (0.75 pence on 31 December 2012) has recovered to 2.5 pence.

Pension arrangements

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

Directors' contracts

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

Name of Director	Date of contract
John Cronin	20 March 2012
Dr John Read	30 November 2005
Simon Smith	29 March 2010

Remuneration Committee Report continued

Audited information

Non-executive directors

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

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

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

Directors' emoluments

Name of director	Fees/Basic salary £	Compensation for loss of office £	Other emoluments	Annual bonuses £	2012 total £	2011 total £
Executive						
John Cronin	57,000	-	37,326	-	94,326	N/A
Non-Executive						
Dr John Read	44,583	-	-	-	44,583	50,000
Simon Smith	50,000	-	-	-	50,000	25,000

The 'Other emoluments' disclosed above relate to the matching share incentive whereby the Company issued matching shares for share purchases up to 0.5% of issued share capital.

£94,326 was paid to third parties in respect of directors' services during 2012 (2011: £nil).

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the directors. There were no options exercised by directors during the year (2011: nil)

Options granted under the EMI Share Option Scheme and unapproved share option schemes, 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 (2011: nil). At 31 December 2012, shares held by directors under this scheme were as follows:

	2012	2011
Dr John Read	**1,000,000**	1,000,000

The market price of the ordinary shares at 31 December 2012 was £0.0075 and the range during the year was £0.0035 to £0.0086.

Approval

This report was approved by the Board of Directors on 30 May 2013 and signed on its behalf by:

John Cronin
Executive Chairman
30 May 2013

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statments 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 Article 4 of the IAS Regulation and have chosen to prepare the parent Company financial statements under IFRSs as adopted by the EU.
Under Company law the directors must not approve the accounts unless they are satisfied that they give a fair view of the state of affairs of the Company and of profit and loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that the directors:

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

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

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

By order of the Board

John Cronin
Executive Chairman
30 May 2013

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 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent Company's affairs as at 31 December 2012 of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 3 of the financial statements concerning the Company's ability to continue as a going concern. The Group incurred a net loss of £2,876,772 during the year ended 31 December 2012 and, as of that date, the Group's cash balance was £1,618,574. In making their assessment of whether the application of the going concern assumption is appropriate, the directors have referred to the Company's business plan and cash flow forecast, which assumes a certain level of sales at a certain gross margin and a need in the foreseeable future for additional funding. There is a significant risk that the actual level of sales achieved is materially lower than is assumed in the business plan or that margins may be significantly lower than planned. In addition there is a risk that the required level of additional funding will not be received on a sufficiently timely basis or will not be achieved at all. These conditions, along with other matters in note 3, indicate the existence of a material uncertainty which may cast significant doubt upon the Company's ability to continue as a going concern. The financial statements do not contain the adjustments that would result if the Group was unable to continue as a going concern. In the event the Group ceased to be a going concern, the adjustments would include writing down the carrying value of assets, including inventories, to their recoverable amount and providing for further liabilities that might arise.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

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

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

Stuart Henderson
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom
30 May 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Note	2012 £	2011 £
			(Restated) (note 33)
Continuing operations			
Revenue	5	**315,194**	455,591
Cost of sales		**(203,654)**	(321,477)
Gross profit		**111,540**	134,114
Research and development costs		**(1,141,005)**	(1,865,982)
Other operating costs		**(2,074,157)**	(1,843,132)
Operating loss		**(3,103,622)**	(3,575,000)
Investment revenue	5,10	**4,091**	2,146
Finance costs	11	**(3)**	(7)
Loss before tax		**(3,099,534)**	(3,572,861)
Tax	12	**222,762**	345,784
Loss for the year	7	**(2,876,772)**	(3,227,077)
Loss per share (pence)			
Basic	13	**(0.1)**	(0.3)
Diluted	13	**(0.1)**	(0.3)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 **£**	2011 £
		(Restated) (note 33)
Loss for the year	**(2,876,772)**	(3,227,077)
Exchange differences on translation of foreign operations	**113,540**	(34,104)
Total comprehensive income for the period	**(2,763,232)**	(3,261,181)

Consolidated Balance Sheet

At 31 December 2012

	Note	2012 £	2011 £ (Restated) (note 33)
Non-current assets			
Intangible assets	14	**-**	-
Property, plant and equipment	15	**8,990**	29,843
		8,990	29,843
Current assets			
Inventories	17	**1,024,241**	973,577
Trade and other receivables	18	**333,022**	562,182
Cash and cash equivalents	18	**1,618,574**	364,590
		2,975,836	1,900,349
Total assets		**2,984,826**	1,930,192
Current liabilities			
Trade and other payables	21	**(287,772)**	(349,126)
Total liabilities		**(287,772)**	(349,126)
Net current assets		**2,688,064**	1,551,223
Net assets		**2,697,054**	1,581,066
Equity			
Share capital	22	**232,681**	2,385,401
Share premium account	23, 33	**27,779,215**	21,654,936
Own shares held	24	**(808,856)**	(690,191)
Share option reserve	25,33	**776,190**	749,865
Translation reserve	27	**(214,817)**	(328,358)
Retained losses	26, 33	**(25,067,359)**	(22,190,587)
Total equity being equity attributable to owners of the Company		**2,697,054**	1,581,066

The financial statements of Cyan Holdings plc (registered number 04554942) were approved by the Board of Directors and authorised for issue on 30 May 2013. They were signed on its behalf by:

John Cronin
Executive Chairman

Consolidated Statement of Changes in Equity

At 31 December 2012

	Notes	Share Capital £	Share Premium £	Own Shares Held £	Share Option Reserve £	Translation Reserve £	Retained Losses £	Total Equity £
Balance at 31 December 2010 (as previously reported)		**1,847,666**	**20,378,625**	**(609,191)**	**476,999**	**(294,254)**	**(19,204,395)**	**2,514,450**
Prior year adjustment	33	-	(310,713)	-	69,828	-	240,885	**-**
Balance at 31 December 2010 (restated)		**1,847,666**	**20,067,912**	**(690,191)**	**546,827**	**(294,254)**	**(18,963,510)**	**2,514,450**
Loss for the year		-	-	-	-	-	(3,227,077)	**(3,227,077)**
Other comprehensive income for the year		-	-	-	-	(34,104)	-	**(34,104)**
Total comprehensive income for the year		-	-	-	-	(34,104)	(3,227,077)	**(3,261,181)**
Issue of share capital		537,735	1,587,024	-	-	-	-	**2,124,759**
Credit to equity for share options		-	-	-	203,038	-	-	**203,038**
Balance at 31 December 2011 (restated)		**2,385,401**	**21,654,936**	**(690,191)**	**749,865**	**(328,358)**	**(22,190,587)**	**1,581,066**
Balance at 31 December 2011 (as previously reported)		**2,385,401**	**21,965,649**	**(690,191)**	**604,536**	**(328,358)**	**(22,355,971)**	**1,581,066**
Prior year adjustment	33	-	(310,713)	-	145,329	-	165,384	**-**
Balance at 31 December 2011 as restated		**2,385,401**	**21,654,936**	**(690,191)**	**749,865**	**(328,358)**	**(22,190,587)**	**1,581,066**
Loss for the year		-	-	-	-	-	(2,876,772)	**(2,876,772)**
Other comprehensive income for the year		-	-	-	-	113,541	-	**113,541**
Total comprehensive income for the year		-	-	-	-	113,541	(2,876,772)	**(2,763,231)**
Issue of share capital		114,781	3,856,778	(118,665)	-	-	-	**3,852,894**
Capital Restructure		(2,267,501)	2,267,501	-	-	-	-	**-**
Credit to equity for share options		-	-	-	26,325	-	-	**26,325**
Balance at 31 December 2012		**232,681**	**27,779,215**	**(808,856)**	**776,190**	**(214,817)**	**(25,067,359)**	**2,697,054**

Company balance sheet

At 31 Demember 2012

	Note	**2012 £**	2011 £ (restated) (note 33)
Non-current assets			
Intangible assets	14	**-**	-
Investments in subsidiaries	16, 33	**356,659**	366,973
		356,659	366,973
Current assets			
Trade and other receivables	18	**432,258**	214,893
Cash and cash equivalents	18	**1,397,303**	191,043
		1,829,561	405,936
Total assets		**2,186,220**	772,909
Current liabilities			
Trade and other payables	21	**(42,677)**	(41,196)
Loans from other Group entities		**(2,000)**	(2,000)
Total Liabilities		**(44,677)**	(43,196)
Net current assets		**1,784,884**	362,740
Net assets		**2,141,543**	729,713
Equity			
Share capital	22	**232,681**	2,385,401
Share premium account	23, 33	**27,779,215**	21,654,936
Share option reserve	25, 33	**776,190**	749,865
Retained losses	26, 33	**(26,646,543)**	(24,060,489)
Total equity		**2,141,543**	729,713

The financial statements of Cyan Holdings plc (registered number 04554942) were approved by the Board of Directors and authorised for issue on 30 May 2013. They were signed on its behalf by

John Cronin
Executive Chairman

Company Statement of Changes in Equity

At 31 December 2012

	Notes	Share Capital £	Share Premium £	Share Option Reserve £	Retained Losses £	Total Equity £
Balance at 31 December 2010 (as previously reported)		**1,847,666**	**20,378,625**	**476,999**	**(20,624,753)**	**2,078,537**
Prior year adjustment	33	-	(310,713)	310,713	-	**-**
Balance at 31 December 2010 (restated)		**1,847,666**	**20,067,912**	**787,712**	**(20,624,753)**	**2,078,537**
Loss for the year		-	-	-	(3,435,736)	**(3,435,736)**
Other comprehensive income for the year		-	-	-	-	**-**
Total comprehensive income for the year		-	-	-	(3,435,736)	**(3,435,736)**
Issue of share capital		537,735	1,587,024	-	-	**2,124,759**
Credit to equity for share options		-	-	(37,847)	-	**(37,847)**
Balance at 31 December 2011 (restated)		**2,385,401**	**21,654,936**	**749,865**	**(24,060,489)**	**729,713**
Balance at 31 December 2011 (as previously reported)		**2,385,401**	**21,965,649**	**604,536**	**(23,984,988)**	**970,598**
Prior year adjustment	33	-	(310,713)	145,329	(75,501)	**(240,885)**
Balance at 31 December 2011 (restated)		**2,385,401**	**21,654,936**	**749,865**	**(24,060,489)**	**729,713**
Loss for the year		-	-	-	(2,586,054)	**(2,586,054)**
Other comprehensive income for the year		-	-	-	-	**-**
Total comprehensive income for the year		-	-	-	(2,586,054)	**(2,586,054)**
Issue of share capital		114,781	3,856,778	-	-	**3,971,559**
Capital Restructure		(2,267,501)	2,267,501	-	-	**-**
Credit to equity for share options		-	-	26,325	-	**26,325**
Balance at 31 December 2012		**232,681**	**27,779,215**	**776,190**	**(26,646,543)**	**2,141,543**

Consolidated Cash Flow Statement

For the year ended 31 December 2012

	Notes	2012 £	2011 £
Net cash outflow from operating activities	28	**(2,765,349)**	(3,177,846)
Investing activities			
Interest received		**4,091**	2,146
Purchases of property, plant and equipment		**(4,919)**	(29,782)
Net cash used in investing activities		**(828)**	(27,636)
Financing activities			
Interest paid		**(3)**	(7)
Proceeds on issue of shares		**4,185,627**	2,225,862
Share issue costs		**(296,094)**	(101,103)
Net cash from financing activities		**3,889,530**	2,124,752
Net increase/(decrease) in cash and cash equivalents		**1,123,353**	(1,080,730)
Cash and cash equivalents at beginning of year		**364,590**	1,484,437
Effect of foreign exchange rate changes		**130,631**	(39,117)
Cash and cash equivalents at end of year		**1,618,574**	364,590

Company Cash Flow Statement

For the year ended 31 December 2012

	2012 £	2011 £ (restated) (note 33)
Loss for the year	**(2,586,054)**	(3,435,736)
Adjustment for:		
Share based payment expenses	**-**	75,501
Operating cash flows before movement in working capital	**(2,586,054)**	(3,360,235)
(Increase)/decrease in receivables	**(98,700)**	93,242
Increase in payables	**1,481**	3,017
Net cash outflow from operating activities	**(2,683,273)**	(3,263,976)
Financing activities		
Proceeds on issue of shares	**4,185,627**	2,225,862
Share issue costs	**(296,094)**	(101,103)
Net cash from financing activities	**3,889,533**	2,124,759
Net increase/(decrease) in cash and cash equivalents	**1,206,260**	(1,139,217)
Cash and cash equivalents at beginning of year	**191,043**	1,330,260
Cash and cash equivalents at end of year	**1,397,303**	191,043

Notes to the Financial Statements

For the year ended 31 December 2012

1. General information

Cyan Holdings plc is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is Cyan Holdings plc, Buckingway Business Park, Swavesey, CB24 4UQ. The nature of the Group's operations and its principal activities are set out in the Directors' Report on page 13.

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

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 (and in some cases had not yet been adopted by the EU):

Amendments to IFRS 10, IFRS 12 and IAS 27 (Oct 2012)	Investment Entities
Annual Improvements to IFRSs: 2009-2011 Cycle (May 2012)	Annual Improvements to IFRSs: 2009-2011 Cycle
Amendments to IFRS 1 (March 2012)	Government loans
Amendments to IAS 32 (Dec 2011)	Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 7 (Dec 2011)	Disclosures - Offsetting Financial Assets and Financial Liabilities
IFRS 9	Financial Instruments
Amendments to IAS (1 June 2011)	Presentation of Items of Other Comprehensive Income
IAS 19 (revised June 2011)	Employee Benefits
IFRS 13	Fair Value Measurement
IFRS 12	Disclosure of Interests in Other Entities
IFRS 11	Joint Arrangements
IFRS 10	Consolidated Financial Statements
IAS 28 (revised May 2011)	Investments in Associates and Joint Ventures
IAS 27 (revised May 2011)	Separate Financial Statements
Amendments to IFRS 1 (Dec 2010)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

- IFRS 7 (amended) will increase the disclosure requirements where netting arrangements are in place for financial assets and financial liabilities;
- IFRS 9 will impact both the measurement and disclosures of Financial Instruments;
- IFRS 12 will impact the disclosure of interests Cyan Holdings plc has in other entities; and
- IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well the associated disclosures.

3. Significant accounting policies

Group

Basis of accounting

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2012

3. Significant accounting policies

Going concern

The directors have prepared a business plan and cash flow forecast for the period to 31 December 2014 which, together, represent the directors' best estimate of the future development of the Group. The forecast contains certain assumptions, the most significant of which are the level and timing of sales and the gross margin on those sales, together with the need to secure additional finance in order to fund working capital within the next twelve months.

At the time of the preparation of these financial statements, the sales forecast includes a potential large contract with an Indian utility customer (Tamil Nadu Electricity Board or TNEB). The TNEB tender has been issued for 1.5M units and the directors believe that the Group is well placed to be awarded contracts (through local meter manufacturer partners) for the majority, or possibly all of the tender. If successful, the directors believe that delivery on the tender would commence in Q3 2013 and that this contract would be transformational for the Group in terms of both customer and shareholder perception. The directors' understanding is that TNEB have plans to install/replace 18M meters over a multi-year period and further tenders towards this goal will be issued in the second half of 2013. However the variables are such that there is a material uncertainty that forecast sales will be acheived. The Group has other sales opportunities in the pipeline (including multiple installed pilots in India) that are being progressed in parallel.

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

At the Group's General Meeting held on 2 August 2012, resolutions were passed to: (i) complete placings of £2.1 million (before expenses) through the issue of 603 million new ordinary shares; and (ii) issue 301 million warrants to the placees that have an exercise price of 0.5p and a 12 month exercise window until 1 August 2013. If exercised in full, the warrants would provide the Group with additional funding of £1.5 million (before expenses). Given the commercial prospects at the time of preparation of this report (particularly TNEB described above), the directors consider that the Group has a good opportunity to see the share price remain above 0.5p before 1 August 2013 and therefore benefit from the exercise of the warrants. At the time of writing this report a total of 87 million of these warrants have been exercised, raising at total of £433k of additional funds. In addition to this in April 2013 the Board announced that it had raised £1 million before expenses to support the expansion of operations in India and strengthen the balance sheet.

If, however the share price is at or below 0.5p on 1 August 2013, it is likely that the remainder of the warrants will not be exercised and the Group may need additional funding from another source. There remains a significant risk that the required level of funding will not be received in the necessary timescales or at all. This constitutes a material uncertainty.

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

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

Basis of consolidation

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

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

Revenue recognition

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

3. Significant accounting policies continued

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

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

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

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All the 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 transaction are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

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

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2012

3. Significant accounting policies continued

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 accumlated depreciation and any recognised impairment loss.

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

Fixtures and equipment	20% - 50%

There are no assets held under finance leases.

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

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

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

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

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

3. Significant accounting policies continued

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

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

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

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

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

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

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

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

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily 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.

Notes to the Financial Statements continued

For the year ended 31 December 2012

3. Significant accounting policies continued

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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

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

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled shared-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 managment'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 £2,586,054 (2011: £3,435,736 as restated). As permitted by section 408 of the Companies Act 2006, no separate income statement is presented in respect of the parent Company.

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

- The directors have prepared the financial statements on the basis that the company is a going concern. Further information on this critical judgement is included in note 3 within the Directors' Report.
- Inventories include stocks of raw materials and finished goods that the directors believe will be sold within the period to December 2013 covered by the Group's business plan. The directors have assumed that the carrying value is recoverable as a result of the sales and gross margins forecast in that plan. Stocks of product that are not included within the sales forecasts have been provided against in full.

5. Revenue

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

	2012 £	2011 £
Continuing operations		
Sale of goods	**315,194**	455,591
Investment income	**4,091**	2,146
Total revenue	**319,285**	457,737

6. Business and geographical segments

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

During 2012 there were 3 customers (2011:4) whose turnover accounted for more than 10% of the Group's total revenue as follows:

	Turnover £	Percentage Total %
Customer A	142,119	45%
Customer B	82,015	26%
Customer C	33,881	11%

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

During 2012 revenue split between the UK and other countries for sale of goods was as follows:

	2012		2011	
	Turnover £	**Percentage of total %**	Turnover £	Percentage of Total %
UK	**21,719**	**6.9**	22,184	4.9
Rest of World	**293,475**	**93.1**	433,407	95.1
	315,194		455,591	

7. Loss for the year

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

	2012 £	2011 £
Net foreign exchange losses/(gains)	**123,208**	(21,963)
Research and development costs	**1,141,005**	1,865,982
Depreciation of property, plant and equipment	**24,993**	28,690
Inventories recognised as an expense	**39**	32,380
Staff costs (see note 9)	**1,605,261**	1,879,788
Operating lease costs	**98,416**	101,514

Notes to the Financial Statements continued

For the year ended 31 December 2012

8. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2012 **£**	2011 £
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**18,300**	16,000
Fees payable to the Company's auditor and its associates for the other services to the Group		
- The audit of the Company's subsidiaries pursuant to legislation	**10,000**	10,000
Total audit fees	**28,300**	26,000
- Tax services	**20,400**	8,650
- Other services pursuant to legislation	**3,300**	3,158
Total non-audit fees	**23,700**	11,808

9. Employee information

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

	2012 **Number**	2011 Number
Sales and adminstration	**12**	15
Research and development	**8**	11
Operations and logistics	**3**	3
	23	29

	2012 £	2011 £
Their aggregate remuneration comprised:		
Wages and salaries	1,418,077	1,644,651
Social security costs	143,340	183,416
Other pension costs	43,844	51,721
	1,605,261	1,879,788

Key management compensation

The directors are of the opinion that key managment personnel during 2012 comprised of the Board of Directors, the VP of Sales and Marketing Worldwide and the VP of Engineering. These persons had the authority and responsibility for planning, directing and controlling the activities of the Group. Remuneration for 2012 of these personnel is detailed below. During 2011 key management personnel included the Chief Operating Officer in addition to the above personnel.

	2012 **£**	2011 £
Their aggregate remuneration comprised:		
Wages and salaries	**496,525**	546,469
Social security costs	**65,465**	69,234
Other pension costs	**9,750**	12,536
	571,740	628,239

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

10. Investment revenue

	2012 £	2011 £
Interest revenue:		
Bank deposits	**4,091**	2,146

Investment revenue is all earned on cash and cash equivalents.

11. Finance costs

	2012 £	2011 £
Interest on bank overdrafts and loans	**3**	7

12. Tax

	2012 £	2011 £
Current tax:		
UK corporation tax on profits of the period	**(222,762)**	(345,784)
Deferred tax (note 20)	**-**	-
	(222,762)	(345,784)

Corporation tax is calculated at 24.5 per cent (2011: 26.5 per cent) of the estimated assessable profit for the year.

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

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

	2012 £	2011 £ (restated) (note 33)
Loss before tax	**(3,099,534)**	(3,572,861)
At blended rate of 24.5% (2011: 26.5%)	**(759,386)**	(946,808)
Effects of:		
Tax effect of non deductible expenses	**27,024**	32,611
Effect of overseas tax rates	**17,599**	23,984
Tax effect of capital allowances in deficit of depreciation	**1,943**	7,591
Net tax effect of research and development	**192,089**	368,373
Tax effect of other recognised temporary differences	**2,167**	-
Tax effect of unrecognised losses	**520,731**	486,874
Prior year adjustment	**12,414**	27,375
Research and development tax credit receivable - current year	**(237,343)**	(345,784)
Actual current tax credit in the year	**(222,762)**	(345,784)

Notes to the Financial Statements continued

For the year ended 31 December 2012

12. Tax continued

Factors affecting tax charge in future years

In March 2012, the UK Government announced a reduction in the standard rate of UK corporation tax to 24% effective 1 April 2012 and to 23% effective 1 April 2013. These rate reductions became substantively enacted in March 2012 and July 2012 respectively.

In December 2012, the UK Government also proposed to further reduce the standard rate of UK Corporation tax to 21% effective 1 April 2014 but this change has not been substantively enacted.

In March 2013, the UK Government also proposed to further reduce the standard rate of UK Corporation tax to 20% effective 1 April 2015, but this change has not yet been substantively enacted.

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

13. Earnings per share

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

Earnings

	2012 **£**	2011 £ (restated)
Earnings for the purposes of basic earnings per share being net loss attributable to equity holders of the parent	**2,876,772**	3,227,077

Number of shares

	No.	No.
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**2,297,507,867**	1,021,124,228

14. Intangible assets

No intangible assets are held at valuation in these accounts.

	Software	
	Group **£**	**Company** **£**
Cost		
At 1 January 2011, 1 January 2012 and 31 December 2012	143,964	143,964
Amortisation		
At 1 January 2011, 1 January 2012 and 31 December 2012	143,964	143,964
Carrying amount		
At 31 December 2012	-	-
At 31 December 2011	-	-

15. Property, plant and equipment

No assets are held at valuation in these accounts.

Group

	Fixtures and equipment £
Cost	
At 1 January 2011	282,407
Additions	29,782
Disposals	(399)
Exchange differences	393
At 1 January 2012	312,183
Additions	4,919
Disposals	(1,536)
Exchange differences	(1,494)
At 31 December 2012	**314,072**
Accumulated Depreciation	
At 1 January 2011	253,293
Charge for the year	28,690
Disposals	(83)
Exchange differences	440
At 1 January 2012	282,340
Charge for the year	24,993
Disposals	(819)
Exchange differences	(1,432)
At 31 December 2012	**305,082**
Carrying Amount	
At 31 December 2012	**8,990**
At 31 December 2011	**29,843**

At 31 December 2012 the Group had no contractual commitments outstanding for the acquistion of property, plant and equipment (31 December 2011: £nil)

16. Subsidiaries

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

Notes to the Financial Statements continued

For the year ended 31 December 2012

17. Inventories

Group

	2012	2011
	£	£
Raw materials	**688,829**	632,326
Finished goods	**335,412**	341,251
	1,024,241	973,577

The Company holds no inventories at either balance sheet date.

18. 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 £1,635,542 (2011: £471,619). Those of the Company include loans and cash and cash equivalents and total £1,397,303 (2011: £191,043).

Trade and other receivables

	Group		**Company**	
	2012	2011	**2012**	2011
	£	£	**£**	£
Amount receivable for the sale of goods	**16,968**	107,028	**-**	-
Other debtors	**257,097**	387,821	**4,260**	7,022
EBT loan	**-**	-	**395,901**	172,139
Prepayments	**58,957**	67,333	**32,097**	35,732
	333,022	562,182	**432,258**	214,893

During the year nothing was written off the value of the carrying amount of trade and other receivables (2011: £nil)

The directors consider that the carrying amount of trade and other receivables at 31 December 2012 approximates to their fair value.

Amounts receivable from the Group undertakings are shown in note 32.

Cash and cash equivalents

	Group		**Company**	
	2012	2011	**2012**	2011
	£	£	**£**	£
Cash and cash equivalents	**1,618,574**	364,590	**1,397,303**	191,043

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 Limted. As security for this guarantee, Barclays hold a legal change over a deposit account held specifically for this purpose for £10,000. This cash cannot be used for any other puposes.

19. 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 finanical 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 2012 or 31 December 2011 and consequently no sensitivity analysis is presented.

Credit risk

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

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

At 31 December 2012 the Group had no significant concentration of credit risk, with exposure being both small in quantum and spread over a number of counterparties and customers.

There are £274 debtors which were past due at the reporting date and not impaired (2011: £nil). £nil is 0-90 days overdue (2011: £65,811) and £274 is over 90 days overdue (2011: £nil); the remaining balance is not yet due. There was no allowance for doubtful debts at 31 December 2012 (2011: £nil). There was no bad debt charge for the year (2011: £nil). The Company has made a provision against the full amount of the debt owed to it by its subsidiary companies totalling £27,044,566 (2011: £24,418,528). In addition, the Company has made a provision of £412,669 (2011: £518,052) against the debt owed to it by Cyan Technology Limited relating to the loan for EBT shares, to bring the loan in line with market value of the shares held in the Trust. These amounts are not overdue. Since the Group holds no collateral, the maximum exposure to credit risk is the carrying value of trade receivables.

Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows.

20. 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 accelarated capital allowances of £3.7m (2011: £3.1m) existed. No deferred tax asset has been recognised due to the unpredictability and uncertainty of future profit streams.

21. 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 £67,207 (2011: £29,039) and those of the Company totalled £11,355 (2011: £13,071).

Trade and other payables

	Group		**Company**	
	2012	2011	**2012**	2011
	£	£	**£**	£
Trade payables and accruals	**287,772**	349,126	**42,677**	41,196

Notes to the Financial Statements continued

For the year ended 31 December 2012

21. Other financial liabilities continued

Trade payments and accruals principally comprise amounts outstanding for trade purchases and ongoing costs all of which are payable within a year. The average credit period taken for trade purchases is 20 days (2011: 25 days). The Group has not incurred interest charges for late payment of invoices during the year (2011: £nil). The Group has financial risk management policies in place to ensure that all payables are paid within agreed credit timeframes. 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.

22. Share capital

	2012 **£**	2011 £
Issued and fully paid: 2,326,805,503 ordinary shares of 0.01 pence each (2011: 1,192,700,288 ordinary shares of 0.2 pence each)	**232,681**	2,385,401

On 5 January 2012 the Company completed a share restructure to change the nominal value of the Company shares from 0.2 pence per share to 0.01 pence per share.

Also, on 5 January 2012 the Company completed a placing the result of which was 420,200,000 ordinary shares of 0.01 pence per share being issued at a price of 0.4 pence per share to raise £1.5M net.

On 2 August 2012 the Company completed a placing the result of which was 602,730,000 ordinary shares of 0.01 pence each being issued at a price of 0.35 pence per share to raise £2.0M after expenses. The funds from the placing were raised to develop and execute on the Group's strategy.

At the same time the Company issued 301,365,000 warrants with an exercise price of 0.5 pence per share and a further 34,914,000 warrants with an exercise price of 0.4787 pence per share. These warrants could be exercised any time between August 2012 and August 2013. In the period to 31 December 2012 a total of 54,848,869 warrants had been exercised raising a further £271k for the Company.

During 2012 all directors purchased shares on a monthly basis, summarised below, as part of the directors' share plan detailed in the Cyan circular of September 2010

John Cronin	972,254 shares
John Read	1,954,463 shares
Simon Smith	1,438,967 shares
Kenn Lamb	368,467 shares

In addition, during 2012 John Cronin was issued with 9,764,421 shares as part of a matching share scheme whereby he purchased shares to the amount of 0.5% of the Company's issued share capital, and was issued with the equivalent number of shares.

During 2012, invoices for certain suppliers were settled by way of share issues as follows:

16 February 2012	7,558,139 shares
24 July 2012	3,461,538 shares
4 September 2012	2,214,286 shares

On 25 January 2012, 28,593,811 shares were issued to employees to be held jointly in a trust as part of the Company EBT Share Scheme. The performance criteria that must be met is that no employee will gain via this trust until the share price is greater than 0.6 pence per share. These shares have a vesting date of 5 January 2015.

No shares were issued as a result of the exercise of share options (2011 none).
The Company has one class of ordinary shares which carries no right to fixed income.

23. Share premium account

	Note	Group £ (restated)	Company £ (restated)
Balance at 1 January 2011 (as previously reported)		20,378,625	20,378,625
Prior year adjustment	33	(310,713)	(310,713)
Balance at 1 January 2011 (restated)		20,067,912	20,067,912
Premium arising on issue of equity shares		1,688,127	1,688,127
Expenses of issue of equity shares		(101,103)	(101,103)
Balance at 31 December 2011 (restated)		21,654,936	21,654,936
Balance at 31 December 2011 (as previously reported)		21,965,649	21,965,649
Prior year adjustment		(310,713)	(310,713)
Balance at 31 December 2011 (restated)		21,654,936	21,654,936
Restructure of share capital		2,267,501	2,267,501
Premium arising on issue of equity shares		4,189,511	4,189,511
Expenses of issue of equity shares		(332,733)	(332,733)
Balance at 31 December 2012		**27,779,215**	**27,779,215**

24. Own shares held

	Group £
Balance at 1 January 2011 and 31 December 2011	(690,191)
Movement during the year (new shares issued)	(118,665)
Balance at 31 December 2012	**(808,856)**

25. Share option reserves

	Note	Group £ (restated)	Company £ (restated)
Balance at 1 January 2011 (as previously reported)		476,999	476,999
Prior year adjustment	33	69,828	69,828
Balance at 1 January 2011(restated)		546,827	546,827
Movement in the year		203,038	203,038
Balance at 31 December 2011 (restated)		749,865	749,865
Balance at 1 January 2012 (as previously reported)		604,536	604,536
Prior year adjustment	33	145,329	145,329
Balance at 1 January 2012 (restated)		749,865	749,865
Movement in the year		26,325	26,325
Balance at 31 December 2012		**776,190**	**776,190**

Notes to the Financial Statements continued

For the year ended 31 December 2012

26. Retained earnings

	Note	Group £ (restated)	Company £ (restated)
Balance at 1 January 2011 (as previously reported)		(19,204,935)	(20,624,753)
Prior year adjustment	33	240,885	-
Balance at 1 January 2011 (restated)		(18,964,050)	(20,624,753)
Net loss for the year		(3,227,077)	(3,435,736)
Balance at 31 December 2011 (restated)		(22,191,127)	(24,060,489)
Balance at 1 January 2012 (as previously reported)		(22,355,971)	(23,984,988)
Prior year adjustment	33	165,384	(75,501)
Balance at 1 January 2012 (restated)		(22,190,587)	(24,060,489)
Net loss for the year		(2,876,772)	(2,586,054)
Balance at 31 December 2012		**(25,067,359)**	**(26,646,543)**

27. Translation Reserve

	Group £
Balance at 1 January 2011	(294,254)
Exchange differences on translation of foreign operations	(34,104)
Balance at 1 January 2012	(328,358)
Exchange differences on translation of foreign operations	113,541
Balance at 31 December 2012	(214,817)

28. Notes to the consolidated cash flow statement

	2012 £	2011 £ (restated) (note 33)
Operating loss for the year:	**(3,103,622)**	(3,575,000)
Adjustments for:		
Depreciation of property, plant and equipment	**24,993**	28,690
Share-based payment expense	**(10,314)**	203,038
Operating cash flows before movements in working capital	**(3,088,943)**	(3,343,272)
Increase in inventories	**(50,664)**	(100,654)
Decrease/(increase) in receivables	**98,436**	(116,848)
(Decrease)/increase in payables	**(61,355)**	65,255
Cash reduced by operations	**(3,102,526)**	(3,495,519)
Income taxes received	**337,177**	317,673
Net cash outflow from operating activities	**(2,765,349)**	(3,177,846)

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.

29. Operating lease arrangements

The Group as a lessee

	2012 £	2011 £
Minimum lease payments under operating leases recognised as an expense in the year	**98,416**	101,514

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:

	2012 £	2011 £
Within one year	**63,349**	83,977
In the second to fifth years inclusive	**11,458**	71,829

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

	2012 £	2011 £
Minimum lease payments under operating leases recognised as an expense in the year	**55,000**	55,000

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

	2012 £	2011 £
Within one year	**55,000**	55,000
In the second to fifth years inclusive	**11,458**	66,458

30. Contingent liabilities

Neither the Group nor the Company is aware of any contingent liabilities outstanding as at the date of this report (2011: none).

Notes to the Financial Statements continued

For the year ended 31 December 2012

31. Share-based payments

Equity-settled share option scheme

The Company has a share option scheme for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of all the Company's shares on the date of grant. The vesting period is 4 years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

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

	2012		2011	
	Number of share options	**Weighted average exercise price (in £)**	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	**30,598,472**	**0.011**	26,895,361	0.019
Granted during the period	**49,783,097**	**0.006**	5,750,000	0.010
Forfeited during the period	**(27,600,979)**	**0.011**	(2,046,889)	0.009
Oustanding at the end of the period	**52,780,590**	**0.006**	30,598,472	0.011
Exercisable at the end of the period	**4,670,922**	**0.01**	9,375,018	0.010

The options outstanding at 31 December 2012 had a weighted average exercise price of £0.01 and a weighted average remaining contractual life of 108 months. In 2012, options were granted on 25 January, 25 April and 23 July, 21 November and 23 November. The aggregate of the estimated fair values of those options is £152,814. In 2011, options were granted on 25 January, 28 March, 27 April and 27 July. The aggregate of the estimated fair values of the options on those dates is £64,095.

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

	2012	2011
Weighted average share price	**0.55p**	1.08p
Weighted average exercise price	**0.55p**	1.08p
Expected volatility	**98%**	383%
Expected life	**4 years**	4 years
Risk free rate	**0.49%**	0.50%
Expected divident yield	**0%**	0%

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

The Group recognised total expenses of £26,325 and £203,038 related to equity-settled, shared-based payment transactions in 2012 and 2011 respectively.

Warrants

The Company issues share warrants, either in connection with the issue of equity or for the service received from third parties. Warrants are issued at a fixed price and for a fixed number of shares, such that each warrant entitles the holder to subscribe for one Ordinary Share in the Company. All share warrants vest immediately on issue.

Details of the share warrants outstanding during the year are as follows:

	Number of warrants	**2012 Weighted average exercise price (in £)**	Number of warrants	**2011** Weighted average exercise price (in £)
Outstanding at beginning of period	**35,000,000**	**0.017**	25,000,000	0.010
Granted during the period	**766,660,750**	**0.005**	10,000,000	0.007
Expired during the period	**(425,200,000)**	**0.006**	-	-
Exercised during the period	**(54,848,869)**	**0.005**	-	-
Outstanding at the end of the period	**321,611,881**	**0.016**	35,000,000	0.017
Exercisable at the end of the period	**321,611,881**	**0.016**	35,000,000	0.017

The fair value of the warrants accounted for in accordance with IFRS2 'Share based payments' is measured by use of the Black-Scholes option pricing model.

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

	2012	**2011**
Weighted average share price	**0.55p**	1.08p
Weighted average exercise price	**0.55p**	1.08p
Expected volatility	**98%**	383%
Expected life	**4 years**	4 years
Risk free rate	**0.49%**	0.50%
Expected dividend yield	**0%**	0%

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

Notes to the Financial Statements continued

For the year ended 31 December 2012

32. Related party transactions

	Company 2012 £	Company 2011 £
As at 1 January	**366,973**	478,999
Capital decrease in respect of share based payments	**(10,314)**	(112,026)
At at 31 December	**356,659**	366,973

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 £94,326 (2011: £nil) in respect of executive director services.

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 Wales 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 products.
- 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 products in Asia.
- The Company's results are consolidated into these accounts.

Company

Transactions between the Company and its subisdiaries and associates are disclosed below:

	2012 £	2011 £
Loan to related parties		
Cyan Technology Limited	**24,144,427**	21,635,166
Cyan Asia Limited	**2,900,139**	2,783,362
	27,044,566	24,418,528

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 2012 these amounted to £551,020 (2011: £402,227).

33. Restatement of prior periods

The financial statements include a prior period restatement in relation to the treatment of warrants issued in prior periods. In prior periods, these warrants were accounted for in accordance with IFRS 2 Share based payments.

In the restated financial statements, these warrants have been accounted for based on the agreement in place as follows:

- For warrants issued to placees as part of an equity fund raising where no service has been, or will be provided to Cyan, these are outside the scope of IFRS2, and no change is recorded in the income statement; and
- For warrants issued to service providers as part of the consideration payable to them, these are within the scope of IFRS2, and the total fair value of the warrants is spread over the related period, or expensed immediately if the service has already been received. For service provided in connection with share issues, the expenses are recorded against share premium.

Consolidated income statement (extracts)

	2011 £ as reported	2011 £ adjustment	2011 £ restated
Other operating costs	1,767,631	75,501	1,843,132
Operating loss	3,499,499	75,501	3,575,000
Loss before tax	3,497,360	75,501	3,572,861
Loss for the year	3,151,576	75,501	3,227,077

Consolidated statement of comprehensive income (extracts)

	2011 £ as reported	2011 £ adjustment	2011 £ restated
Loss for the year	3,151,576	75,501	3,227,077
Total comprehensive income for the period	3,185,680	75,501	3,261,181

Consolidated balance sheet (extracts)

	2011 £ as reported	2011 £ adjustment	2011 £ restated
Equity			
Share premium account	21,965,649	(310,713)	21,654,936
Share option reserve	604,536	145,329	749,865
Retained earnings	22,355,971	(165,384)	22,190,587

Company balance sheet (extracts)

	2011 £ as reported	2011 £ adjustment	2011 £ restated
Non-current assets			
Investment in subsidiaries	607,858	(240,885)	366,973
Equity			
Share premium account	21,965,649	(310,713)	21,654,936
Share option reserve	604,536	145,329	749,865
Retained earnings	23,984,988	75,501	24,060,489

Notes to the Financial Statements continued

For the year ended 31 December 2012

34. Post Balance Sheet Event

In April 2013 the Company announced that it had raised a further £1 million before expenses. The Board felt that this additional funding was crucial not only to support the expansion of activities into India, but also to strengthen the balance sheet at a key time in the tender process of TNEB. Included in this placing was an issue of a further 74,444,444 warrants with an exercise price of 0.65 pence per share to raise a further £484k, however shareholder approval of this warrant issue will be sought at the Company's AGM in June 2013.

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