

CEO's Newsletter

Dear Shareholder,

This is the August newsletter and I apologise for its late delivery. I am in China at the moment and email connection has proved patchy to say the least, so I was unable to get this sent to the other directors for approval before sending out to our website.

I have asked the people who handle the investor section of our website to send all trade press releases out on the "Investor Alert" distribution list. I would recommend that all interested investors should subscribe for this alert.

The coming weeks should see some news flow. At our early stage of being a public company we have been capitalising on the credibility it has given us with potential customers in the electronics industry. This effort is starting to yield results with larger customers, some of which are in new application areas for Cyan. It is unlikely that we will be able to identify customers as most of the time we have to enter into confidentiality agreements. Also for Cyan's sake it is unwise to inform our competitors where potential microcontroller business is.

I have received a few emails asking whether or not the 100K China order was completed. I can confirm that it has been.

eCOG1X

Cyan Technology Ltd now has the eCOG1X product range released for production. First devices to be shipped will be in the 68 QFN package and the 208 BGA package. These will be followed by the 100 QFN and 176 BGA. Cyan already has 14 design wins for the eCOG1X totalling some 250K units per annum when all of them are at full projected run rates. There is a further 18 opportunities that we are working on at present over 50K units per annum that if all were successful would result in 3.5 million units per annum at full projected production rates. Unit selling price for eCOG1X products is in the range of \$4 to \$10. Key design wins are in ePOS and Telematics with further opportunities in security, access control, pay phones, consumer and networking.

MicrelNet

Cyan recently released a news item to the trade press regarding our co-operation with Micrel, which has resulted in some considerable interest from potential customers. As a result the press release below has been published. Why has this generated so much interest and what does it mean to Cyan? Wireless mesh networks will be used in most of the machine to machine communication applications that will be appearing in industry, the home, shops and offices. It's a bit like WiFi where lots of IT equipment is communicating in an office or the home and then collectively joined to the Internet or other network. For applications such as heating and ventilation, lighting and many other control and sensing applications, WiFi is far too expensive. What is required are very low cost wireless nodes with ultra low power consumption (as there are no wires they need to be battery operated).

Each of these nodes and the (relatively) more sophisticated mesh control nodes need very low cost radios and ultra low power microcontrollers, which is where Cyan comes in. MicrelNET is propriety to Micrel but there is a wireless mesh network standard referred to as 15.4. Combine this standard with 2.4GHz wireless (and a few other issues) and it is called ZigBee. There are a few chip suppliers of ZigBee radios such as ChipCon and Ember. Combine 15.4 with radios operating in the unlicensed bands of 433MHz, 868MHz and 916MHz and you will find people referring to it as ZWave (although not all will use this name as they may do something a bit different). The main difference between the 2.4GHz radios and the unlicensed band radios is range and data rate. 2.4GHz is good for about 10 metres whereas the unlicensed band radios can cover distances 10 to 50 times that. Indeed one of Cyan's reference designs achieves 600 metres. The purpose of this collaboration with Micrel is to facilitate Cyan's ability to grab some of this huge future market.

It is regarded in the electronics sector that the numbers of these very low cost wireless nodes **will considerably exceed the volumes in mobile handsets**, and that's the interesting bit!

Press release:

MicrelNet wireless firmware stack now runs on Cyan's microcontrollers.

Mesh and other M2M radio applications quickly and economically Implemented.

Cambridge, UK - 17 July 2006. Cyan Technology has introduced a fully tested MicrelNet(tm) RF firmware stack for its eCOG1 microcontroller. MicrelNet is a free stack from Micrel Inc and is for use in conjunction with Micrel's RadioWire(r) range of RF transceivers. The MicrelNet firmware stack and modules provide easy short-range wireless networking from basic star networks through to complex multi-level solutions and presents a host of opportunities in industrial and commercial system applications.

"The combination of Cyan's low power microcontrollers and Micrel's RF products gives the end-user a very versatile and easy-entry into RF networking for telemetry applications," stated Dr Paul Clark, Field Applications Manager at Cyan Technology, "Used in conjunction with the CyanIDE tool-chain, which is available free from Cyan, the stack reduces development time and enables a much faster time to market - even for designers unfamiliar with radio applications."

Micrel's RadioWire MICRF6xx modules and the MICRF50x transceiver modules plug directly to the eCOG1k development board which means that a radio based development system will be up and running in minutes thus drastically reducing development time.

Solutions are available for the 433, 868 and 915MHz license free ISM bands, with data rates up to 20kbps on the modules. Typical ranges are in excess of 300m outdoor and 40m indoors. Use of this Cyan/Micrel solution gives

engineers a proven route for designs suitable for many application areas including telemetry, building and residential control systems.

Paul Clark adds "This type of network, utilising short-range RF and network topologies, helps solve some of the key issues in the machine-to-machine (M2M) industry where the use of public GSM or GPRS mobile networks is too costly for mass deployment."

Sales Metrics

We chart the number of people registering and downloading our tools as this bears a resemblance to the number of design wins we have or can expect.

The graphs on their own don't tell a complete picture, as a design win or an opportunity could be as low as 500 units per annum or as high as millions of units per annum. When we discuss projects with customers, both sides need to discuss the total annual volume in order to negotiate price etc. If we lost 50 very low volume opportunities and gained 1 very high volume opportunity what it would mean to the company would not be correctly communicated in the current graphs. So starting from this month I am adding the total annual volume that both design wins and opportunities could mean to the company rather than use a graph of design wins. It must be noted that when a customer's product goes into production the volumes ramp up, they don't immediately start at the projected annual rate. Timing is also an issue; it is not easy to predict when a project will go into manufacture. This means that it is not possible to predict each year's total shipments from this data alone but it does indicate the business potential of the company. These numbers will go up and down for a variety of reasons.

Currently the design wins we have would represent almost **2 million** units per annum if they were all in full production at the same time. If we converted all opportunities to design wins and then production, they would represent an additional **16.5 million** units per annum.

Cumulative Website Registrations - Jan 04 to July 06

