MID-STATES PLC

Annual Report and Accounts 2007

Contents

Technologies

Science

Officers and professional advisers

Directors
D. J. Plucinsky – *Chairman*
M. E. Heath – *Managing Director*
A. J. Tonks – *Finance Director*
J. G. Bateson
P. G. Dumond
W. D. Eberle
C. H. B. Mills

Secretary
A. G. Hunter

Registered Office
Masters House
107 Hammersmith Road
London
W14 0QH
Tel: +44 (0)20 7603 1515

Operational Headquarters
Inov8 Technologies Limited
Tingewick Road
Buckingham
MK18 1EF
Tel: +44 (0)1280 828400

Nominated Advisor and Broker
Panmure Gordon (UK) Limited
Moorgate Hall
155 Moorgate
London
EC2M 6XB

Bankers
HSBC
7 West Nile Street
Glasgow
G1 2RQ

Legal Advisers
O'Melveny & Myers LLP
Warwick Court
5 Paternoster Square
London
EC4M 7DX

Auditors
Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

Registrars
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH
Tel: +44 (0)8707 020 003

David Plucinsky
Chairman

Michael Heath
Managing Director

We are pleased to report on the activities of Mid-States PLC for the financial year ended 30 June 2007. During the year, the company became the parent of a leading environmental technology group as a result of the acquisition of its subsidiaries in October 2006. The financial information presents the consolidated results of the Group, and includes those of its subsidiaries from their dates of acquisition during the year.

The Group's new businesses

Inov8 Technologies Limited, acquired by the Group on 5 October 2006, is an established global leader in fuel system testing equipment and technologies. Its equipment is used in 1,100 installations across 44 countries around the globe by many of the world's major motor manufacturers and Tier One suppliers. It also manufactures the Group's new air disinfection unit, the AD.

Inov8 Science Limited is the sales and marketing company for the AD, a new ground breaking technology that is scientifically proven to be effective in the fight against hospital acquired infections such as MRSA, E. coli and C.diff, and those associated with influenza and other common illnesses that impact our everyday lives. The device, launched in June 2007, clears enclosed spaces of airborne bacteria and viruses.

The AD generates a continuous cascade of hydroxyl radicals (OH°) indoors, reproducing the same natural disinfection effect as occurs in the outdoors and in our bodies. Hydroxyl radicals are essential to life and in the body they are produced by cells to kill invading pathogens as an integral part of the body's own defence systems. The device is suitable for use in a variety of environments including hospitals, care homes, offices, hotels and domestic homes. Development work on the AD was completed during the year and production of the device has now commenced.

Moving Sun Limited was also acquired by the Group and owns substantially all intellectual property rights acquired by the Group.

Operations – Inov8 Science (The AD)

Mid-States has made significant achievements since it acquired the Inov8 companies in October 2006. We finalised development of the AD, conducted further tests on the final product at Porton Down and Leeds University, and re-validated the effectiveness of the product to levels above those achieved in our pre-acquisition investigations. We launched the AD in June, have now begun production and, following the launch of our marketing campaign, have already secured an order from the Sunderland NHS Foundation Trust as part of their efforts to combat hospital acquired infections.

We are excited, not only by the opportunity this revolutionary product affords, but more importantly by the initial acceptance it has received. Whilst our focus is on preventing the airborne transmission of infection, potential purchasers of the AD have identified other uses for it. As an example, in response to a request from several care home operators, it has been proven that the AD is highly effective in eliminating odours, which is an important concern to this market segment. Our discussions with a number of possible distributors give encouragement that the AD will be an important part of infection control, initially in the UK, and thereafter in major markets around the globe.

Our marketing campaign for the AD is given particular credibility as it is endorsed by our prestigious Scientific Advisory Board, chaired by David Macdonald, the driving force behind the AD. Professors Hugh Pennington, Clive Beggs and Derek Elwood, the latter the originator of the OH° air disinfection concept from his days at Porton Down, provide us with invaluable input. Events such as our recent sponsorship of the global bird flu conference in the USA (where David Macdonald delivered a keynote speech) and attendance at the September 2007 Health Protection Agency conference at Warwick University continue to form an important part of our marketing. The detailed and insightful understanding of C.diff that Inov8 Science has developed is allowing us to meaningfully participate in research studies into this now increasingly major concern for health agencies.

Chairman and Managing Director's Report

David Macdonald
Chief Scientific Officer and Chairman of the Scientific Advisory Board

The Inov8 AD

Apart from the AD, our R&D efforts continue to focus on ways of improving the infection control environment in hospitals, care homes and other facilities. Work is progressing well on the development of additional applications for the air disinfection technology that capitalises on our detailed understanding of how OH° works. In all cases, the OH° concept underpins our technology. Whilst additional products are an important part of our future, we continue to devote our full time and attention to making the AD a global success story.

The importance of the role of the hydroxyl radical in human and animal health, which has recently been further validated by independent research published by organisations as diverse as the Wellcome Foundation and Boston University, underpins our future product pipeline.

Operations – Inov8 Technologies

The last twelve months have been challenging for the automotive industry and, in particular, for the Western automotive manufacturers who have traditionally been our largest customers. They have seen falling market share in addition to a tightening of emission regulation in the EU and US which has meant that investment in fuel system testing technology has been delayed until they better understand ways to comply with these new standards.

In response to these challenges, Inov8 Technologies has taken steps to reduce their impact and capitalise on the changes in the market. In terms of ensuring a quality flow of revenues, we established a presence in new markets where growth is being seen, in particular the Far East. The fruits of this effort are evidenced by the installation of a high pressure common rail test stand incorporating our Akribis technology into a new customer's development facility in Japan. Further, we have just completed the installation in China of an end of production line test facility capable of handling 10 million fuel injectors per year. Inov8 Technologies has established a relationship with the Beijing Institute to establish a state of the art research facility and reference site. In addition, recognising the deferral of revenues in the short term, a cost reduction programme was implemented towards the end of the financial year, which brought costs to a level that will permit us to achieve profitability at lower revenues.

This change in geographic focus and the cost reduction programme should stand us in good stead during the coming year and complement our activity in our more traditional markets.

Results and dividends

As noted previously, the results of the Group incorporate those of its operating subsidiaries only for the period since acquisition on 5 October 2006.

Revenue for the year was £4.1 million (18 months ended 30 June 2006: £nil). The loss for the year before taxation was £3.0 million (18 months ended 30 June 2006: £0.1 million profit). At 30 June 2007 the cash at bank was £2.4 million (2006: £7.7 million) and shareholder's funds were £8.1 million (2006: £7.7 million). The directors do not recommend the payment of a dividend for the year (18 months ended 30 June 2006: £nil).

Our Finance Director's Review provides further details of the results for the year.

Board changes

As previously reported, Mike Heath was appointed Managing Director of the Group on 5 October 2006. Mike was, and continues to be an Executive Director of Inov8 Technologies Limited. Prior to joining Inov8, Mike had 25 years of experience of working in corporate banking and corporate recovery and has considerable experience in working in China.

Andrew Tonks was appointed to the Board as Finance Director on 22 June 2007 having joined the Group as Chief Financial Officer in March. Andrew has extensive experience having held senior finance positions within a number of publicly listed groups including NSB Retail Systems, Alvis, ML Holdings and BTR.

Roger McCabe resigned from the Board on completion of the Group's acquisition of Inov8. Roger, the former Chief Executive Officer of the Company, latterly served as a Non-Executive Director. We would like to thank him for his services to the Company over many years and wish him every success for the future.

Outlook

Since the acquisition of Inov8 Technologies was completed in October 2006, the newly combined Group has made solid progress.

We will continue to market the AD in the coming months and we are in advanced negotiations with a number of potential UK distribution partners and expect to announce more details when these negotiations are complete.

We believe that there is significant market potential for the AD in reducing high profile health concerns about viruses and bacteria such as MRSA, E.coli and C.diff, as well as those that impact our daily lives such as influenza.

We are seeing signs of increasing activity in the automotive industry and the Group is well placed to take advantage of the growth generated by the tightening of emissions regulations in the EU and US and from the expansion of the Chinese and Japanese markets. Development work on the next generation of our Akribis technology is close to completion and will be brought to market during the coming year.

We look forward to reporting further over the coming year on sales of the AD and the growth in demand for our market leading fuel system testing technologies.

David J. Plucinsky
Chairman

Michael E. Heath
Managing Director

Finance Director's Review

Andrew Tonks
Finance Director

The Group returned to active trading during the year ended 30 June 2007, following the acquisition of Inov8 Technologies Limited and Moving Sun Limited in October 2006. Consequently, the inclusion of nine months trading of these subsidiaries in the results for the year causes major differences between this year and last year's financial statements. Significant matters and changes for the year are detailed below.

Results

Revenues totalled £4.1 million (18 months ended 30 June 2006: £nil) and the operating loss was £3.2 million (18 months ended 30 June 2006: £0.4 million loss). The loss after tax was £3.0 million (18 months ended 30 June 2006: £0.1 million profit) after charging restructuring costs of £138,000 and goodwill amortisation of £245,000.

The restructuring costs relate to the redundancies made in Inov8 Technologies in May 2007 to reduce the cost base following a period of low activity in the automotive market and to ensure the business remains competitive in future.

The total cash outflow for the year ended 30 June 2007 was £5.2 million and included in this figure was an outflow of £2.7 million associated with the acquisition of Inov8 Technologies Limited and Moving Sun Limited (this includes the £1.9 million repayment of Inov8 Technologies Limited's overdraft).

The Group's cash balances were £2.4 million at 30 June 2007 (30 June 2006: £7.7 million). The lower cash balances following the acquisition reduced interest receivable to £224,000 (18 months ended 30 June 2006: £512,000).

Key performance indicators

The Group considers the key performance indicators as the growth of AD and AD consumable sales, engineering revenues, gross profit, net current assets and cash balances.

	2007 £'000	2006 £'000
Revenue	**4,062**	–
Gross profit	**1,439**	–
Gross margin %	**35.4%**	–
Net current assets	**2,199**	7,659
Cash at bank and in hand	**2,428**	7,669

Please note there were no sales of the AD or the AD consumable in the year.

All of £4,062,000 revenue was attributable to the Inov8 Technologies automotive business. Please note this revenue is for the 9 months trading from the acquisition on 5 October 2006.

The geographical analysis of revenue is:

	2007 £'000	2006 £'000
United Kingdom	**1,403**	–
Other EU	**713**	–
Rest of World	**1,946**	–
	4,062	–

Research and development costs

The loss for the year ended 30 June 2007 included a charge of £1.8 million for research and development costs. £1.4 million of this expenditure relates to the development of the air disinfection technology following the acquisition in October 2006 and the Group launched the AD in June 2007. The balance of the expenditure relates to ongoing research and development in the automotive fuel injection testing business.

(Loss)/earnings per share

The basic loss per share for the year ended 30 June 2007 was 4.42 pence (basic earnings per share 18 months ended 30 June 2006: 0.18 pence).

The diluted loss per share was 4.42 pence (diluted earnings per share 18 months ended 30 June 2006: 0.17 pence).

Acquisition of Inov8 Technologies Limited and Moving Sun Limited

The acquisition was completed on 5 October 2006 and nine months of the trading of Inov8 Technologies have been included in the Group's results for the year. Moving Sun was dormant except for the licensing of intellectual property to Inov8.

The goodwill arising on the acquisition of £6.5 million will be amortised over twenty years under UK GAAP. A charge of £245,000 was included in the consolidated profit and loss account of the Group for the year ended 30 June 2007 (18 months ended 30 June 2006: £nil).

Bank facilities

HSBC Bank plc has granted a £500,000 overdraft facility and a standby overdraft facility of £1 million to Inov8 Technologies Limited on 11 July 2007 and these facilities are reviewed annually. The next review will fall due in January 2008.

Share based payments

The Group has applied FRS 20 from 1 January 2005. In accordance with the transitional provisions, FRS 20 is applicable only to those grants of equity instruments after 7 November 2002 that remained unvested as of 1 January 2005. FRS 20 has not been applied to unexercised share options at the period end which were granted before 7 November 2002 and vested prior to 1 January 2005. The adoption of FRS 20 has not had a material impact on the current period and no prior period adjustments were required.

Taxation

As a result of brought forward losses and the operating loss in the year in Inov8 Technologies Limited the Group's tax charge for the year ended 30 June 2007 was £nil (18 months ended 30 June 2006: £nil).

International Financial Reporting Standards

The results for the year ending 30 June 2008 will be reported under International Financial Reporting Standards (IFRS) and the impact of the transition from UK GAAP to IFRS will be reported upon when the Group publishes its results for the six months ending 31 December 2007.

A. J. Tonks

Andrew J. Tonks
Finance Director

Directors' Report

The directors present their annual report and the audited financial statements of the Company for the year ended 30 June 2007.

Business review and principal activities

The principal activity of the Company is in the area of environmental technology, focussing in particular on cleaner air through its innovative air disinfection and fuel injection technologies.

As shown in the Group's profit and loss account on page 16, following the acquisition of Inov8 Technologies Limited, the Group is again reporting trading revenues (18 months ended 30 June 2006: £nil). The loss after tax was £3.0 million (18 months ended 30 June 2006: £0.1 million profit).

The consolidated balance sheet on page 17 of the financial statements shows that the Company's financial position, in net asset terms, has improved by £0.4 million following the Group's acquisition of Inov8 Technologies Limited and Moving Sun Limited on 5 October 2006.

Overall, the directors consider the performance of the company satisfactory and remain optimistic about the long term prospects for growth through the air disinfection technology.

Principal risks and uncertainties

The AD is a newly launched product therefore the Group still has to establish a foothold in both the commercial and domestic market. Nevertheless the AD is based on new ground breaking technology, which is scientifically proven to be effective in the fight against hospital acquired infections and those associated with influenza and other common illnesses that impact our everyday lives. Discussions with a number of possible distributors give encouragement that the AD will be an important part of infection control, initially in the UK, thereafter major markets around the globe.

The last twelve months have been difficult for the global automotive industry and in addition to a tightening of emission regulation in the EU and US which has meant that investment in fuel system testing technology has been delayed until they better understand the best way to comply with these new standards. Despite these difficult trading conditions we have continued to invest in the development of our market leading products and we are well placed to meet the requirements of the new emission standards.

Revenue arises mainly in the UK, European Union, US and the Far East, as a consequence the Group is exposed to the movement in the Euro and US Dollar exchange rates on revenue generated in these currencies. The Group now has the facility to hedge foreign currency exchange risks and assesses the risk on all export contracts taking into account the uncertainty of the timing of the inflows.

At present the Group has no third party debt and therefore no interest rate exposure.

Results and dividends

Revenue for the year was £4,062,000 (18 months ended 30 June 2006: £nil). The loss for the year before taxation was £3,041,000 (18 months ended 30 June 2006: £0.1 million profit). At 30 June 2007 shareholder's funds were £8,092,000 (2006: £7,659,000).

Dividends

The directors are not recommending payment of a dividend for the year ended 30 June 2007 (18 months ended 30 June 2006: £nil).

Post balance sheet event

On the 9 November 2007 the Company announced the cash Placing of 3,736,300 Ordinary Shares at 26 pence per share, raising £971,439 before expenses. The shares were issued and available to trade on the open market from 14 November 2007.

Substantial interests

At the date of this report the Company has been notified of the following substantial interests in the shares of the Company.

	Number of shares	% holding
David Macdonald	17,928,288	22.85
Bottin (International) Investments Ltd	10,300,000	13.13
Oryx International Investments Ltd	9,612,000	12.25
Michael Heath	4,502,072	5.74
Starlight Investments Ltd	4,553,763	5.80
Esmo Empresarial S.L.	3,167,500	4.04
Sun Life Assurance Company of Canada (UK) Ltd (1)	2,502,640	3.19

(1) Credit Suisse Asset Management have an interest in 3,825,603 shares in the Company, in their capacity as discretionary investment manager, and the 2,502,540 shares of Sun Life Assurance Company of Canada (UK) Ltd form part of that holding.

Directors and their interests

The directors who served during the year are shown below. All directors served throughout the year except as noted below:

David J. Plucinsky (Chairman)
Michael E. Heath (appointed 5 October 2006)
Andrew J. Tonks (appointed 22 June 2007)
John G. Bateson
Paul G. Dumond
The Hon. William D. Eberle
Christopher H. B. Mills
Roger J. McCabe (resigned on 5 October 2006)

In accordance with the Articles of Association, David J. Plucinsky and John G. Bateson retire by rotation and being eligible offer themselves for re-appointment at the forthcoming Annual General Meeting. Andrew J. Tonks was appointed a director on 22 June 2007 and, having been appointed a director since the last Annual General Meeting, retires and is being proposed for re-appointment at the forthcoming Annual General Meeting. Biographical notes about the directors are set out on page 36.

The directors who held office at 30 June 2007 had the following interests in the shares of the Group undertakings (as recorded in the Register of Directors Interests and including those of the spouse or civil partner and children under 18):

	Ordinary shares of 1p each at 14 November 2007	Ordinary shares of 1p each at 30 June 2007	Ordinary shares of 1p each at 30 June 2006
D. J. Plucinsky	* 20,000	–	–
M. E. Heath	* 4,502,072	4,482,072	–
A. J. Tonks	* 20,000	–	–
J. G. Bateson	* 25,000	–	–
P. G. Dumond	160,529	160,529	60,529
W. D. Eberle	74,000	74,000	74,000
C. H. B. Mills	470,430	470,430	470,430
R. J. McCabe (resigned 5 October 2006)	180,000	180,000	180,000

* with the exception of the 4,482,072 shares acquired on 5 October 2006 by M. E. Heath, these shares were acquired as part of the placing on 14 November 2007.

Aggregate emoluments disclosed in note 4 to the financial statements do not include any amounts for the value of options to subscribe for ordinary shares in the Company granted to the directors. Details of the options are as follows:

	1 July 2006	30 June 2007	Date of grant	Date of expiry	Pre variation Exercise price	Post variation Exercise price
D. J. Plucinsky	200,000	200,000	27 Aug 1998	27 Aug 2008	21.50p	11.20p
	150,000	150,000	8 Dec 1998	8 Dec 2008	23.50p	13.20p
	150,000	150,000	8 Dec 1998	8 Dec 2008	23.50p	13.20p
	200,000	200,000	1 Oct 2001	1 Oct 2011	19.00p	8.70p
	–	100,000	8 Nov 2006	8 Nov 2016	17.25p	n/a
R. J. McCabe	375,000	375,000	1 Dec 1998	1 Dec 2008	23.00p	12.70p
	375,000	375,000	1 Dec 1998	1 Dec 2008	23.00p	12.70p
W. D. Eberle	100,000	100,000	1 Oct 2001	1 Oct 2011	19.00p	8.70p
A. J. Tonks	–	175,000	29 Mar 2007	29 Mar 2017	18.25p	n/a

The exercise prices were reduced by approximately 10.3p from the original price when issued, in accordance with the resolutions approved by the shareholders at the Extraordinary General Meeting on 1 April 2003. These provided that the option exercise prices to be reduced by the capital amount per share returned to shareholders under the capital reduction effected on 15 May 2003. See note 19 to the financial statements, Called Up Share Capital, for further details.

All options before 2000 were granted under the Company's US Stock Option Plan and all in and after 2001 were granted under the Company's 1999 Stock Option Plan. Options normally become exercisable in tranches of one third on each anniversary of the date of the grant commencing on the first anniversary following the date of grant. Performance criteria on the above options are all historic and no longer apply since the disposal of former US operations.

Environment

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities. Initiatives designed to minimise the Group's impact on the environment include recycling, waste management, energy procurement and consumption and greening the supply chain.

Supplier payment policy

The Company's policy which is also applied by the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide the terms of payment. Trade creditors of the Company at 30 June 2007 were equivalent to 49 (2006: 36) days' purchases based on the average daily amount invoiced by suppliers during the year.

Employees

Details of number of employees and related costs can be found in note 3 to the financial statements on page 22.

Disabled employees

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the Group's policy wherever practical to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

Employee involvement

The Company seeks to inform and consult with managers and staff regularly by way of in-house publications, informal meetings, training courses and staff development seminars, so as to involve them in the success of the business and to reward their efforts accordingly.

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

• select suitable accounting policies and then apply them consistently;

• make judgments and estimates that are reasonable and prudent;

• state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and 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 may differ from legislation in other jurisdictions.

Disclosure of information to auditors

In so far as the directors are aware:

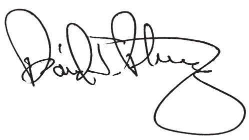
• there is no relevant audit information of which the Company's auditors are unaware; and

• the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

RSM Robson Rhodes LLP ("Robson Rhodes") merged its audit practice with that of Grant Thornton UK LLP ("Grant Thornton") with effect from 2 July 2007, with the successor firm being Grant Thornton. Robson Rhodes resigned as auditors on 31 July 2007, creating a casual vacancy which the directors have filled by appointing Grant Thornton. A resolution to reappoint Grant Thornton as auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed by order of the Board



David J. Plucinsky
Chairman

14 November 2007

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE MATTERS

Compliance with the Combined Code

As an AIM listed company, Mid-States PLC is not required to comply with the corporate governance principles contained in the Combined Code. However, the Board recognises the importance of good governance to the Group and applies the recommendations of the Combined Code in so far as it considers appropriate for a company of its size at its stage in development. A summary of Corporate Governance in the Company is set out below.

Directors

The board of directors meets at regular intervals during the year when matters which have been specifically referred to the board are considered. Matters referred to the board include the approval of interim and final financial statements, significant financial commitments including substantial external costs associated with evaluating identified investment opportunities, appointments to the board and its committees, the Company's future strategy and the Company's internal controls.

During the year eleven meetings of the board and three meetings each of the audit and remuneration committees were held.

The performance of the board, committees and directors were evaluated informally amongst the directors, rather than through a formal evaluation process.

Directors have direct access to the Company's advisers and also the Company Secretary who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. The removal of a Company Secretary is a matter to be decided upon by the board as a whole in terms of the Company's Articles of Association. Although there is no formal training procedure for newly-appointed directors as envisaged by the code, they have direct access to qualified advisers who are able to advise on the necessary requirements for a member of the board of a listed company.

During the year, the board comprised the chairman and four non-executive directors (five until the resignation of Roger McCabe on 5 October 2006), and the two executive directors who were appointed on 5 October 2006 and 22 June 2007. All of the non-executive directors are considered to have been independent and free from material conflicts of judgement. Two (three until the resignation of Roger McCabe) non-executive directors held options in the Company and the board is satisfied that these did not form material conflicts of judgement to those directors in the current context of the Company. The board does not recognise a senior independent director and believes this to be appropriate in view of the already strong independent representation on the board.

Non-executive directors are not appointed for specific terms and instead retire by rotation under the Company's Articles of Association and in accordance with the Combined Code and their appointments are otherwise terminable, by all the other directors, at will. The board believes this provides sufficient flexibility at present.

Information, including that shown in the following section on internal control, is supplied to the board in a timely and appropriate fashion.

The board has a remuneration committee and its members during the period were C. H. B. Mills (Chairman to 24 October 2006), W. D. Eberle (Chairman from 24 October 2006) J. G. Bateson and P. G. Dumond. None of the Committee has any personal financial interest (other than as shareholders), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. No director plays a part in any discussion about his or her own remuneration.

The board has an audit committee which is responsible for making recommendations to the board on the annual financial statements, the appointment of auditors and the review of the Company's internal controls.

The board has a nominations committee which is responsible for recommendations for the appointment of new directors to the board.

Members of each of these committees are shown on page 36.

Dialogue with institutional shareholders

The directors seek to build a mutual understanding of objectives between the Company and its institutional shareholders by discussing long-term issues with, and obtaining feedback from, such shareholders, communicating regularly during the period and issuing regular trading updates.

Internal control

The board of directors has overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. The board is also responsible for reviewing the effectiveness of the Group's system of internal control. The directors review the effectiveness of the system of internal control at least annually.

There are inherent limitations in any system of internal control and the Group's system, which is designed to manage, rather than eliminate the risk of failure to achieve business objectives, can provide only reasonable, and not absolute, assurance against material misstatement or loss. The Group's system of internal control during the period being reported upon includes an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and was in place for the period under review. The directors are responsible for identifying, evaluating and managing business risks. Significant identified risks are reviewed and considered by the board or a committee of the board. This process accords with the Internal Control Guidance for Directors on the Combined Code having regard to the nature of the Group and has been in place throughout the period under review and up to the date of approval of the annual report.

The board has considered it inappropriate to establish an internal audit function given the nature of its activities in the period.

Auditors

The audit committee reviews the scope and results of the external audit and its cost-effectiveness and the objectivity of the auditors. The analysis between audit and non-audit fees in the period under review is shown in note 6 to the financial statements. Non-audit fees, which include due diligence and corporate finance, tax compliance and tax advisory work, are considered not to affect the independence or objectivity of the auditors.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Report of the independent auditors to the members of Mid-States PLC

We have audited the Group and parent Company financial statements (the "financial statements") of Mid-States PLC for the year ended 30 June 2007, which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement and notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Corporate Governance statement and the Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and company's affairs as at 30 June 2007 and of the Group's loss for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants

London

14 November 2007

Group profit and loss account

As at 30 June 2007

	Note	12 months ended 30 June 2007 Acquisitions £'000	12 months ended 30 June 2007 Existing £'000	**12 months ended 30 June 2007 Total £'000**	18 months ended 30 June 2006 £'000
Turnover: continuing activities	2	4,062	–	**4,062**	–
Cost of sales		(2,623)	–	**(2,623)**	–
Gross profit		1,439	–	**1,439**	–
Distribution costs		(57)	–	**(57)**	–
Administration costs		(4,212)	(399)	**(4,611)**	(417)
Operating loss: continuing activities	6	(2,830)	(399)	**(3,229)**	(417)
Interest receivable and similar charges	5			**224**	512
Interest payable and similar costs	5			**(36)**	–
(Loss)/profit on ordinary activities before taxation				**(3,041)**	95
Tax on (loss)/profit on ordinary activities	8			**–**	–
(Loss)/profit on ordinary activities after taxation				**(3,041)**	95
(Loss)/profit for the financial year/period	20			**(3,041)**	95

	Note				
(Loss)/earnings per share:					
Basic (loss)/earnings per share	7			**(4.42)p**	0.18p
Diluted (loss)/earnings per share	7			**(4.42)p**	0.17p

All amounts are derived from continuing activities.

There are no recognised gains or losses for the current year or prior period other than the profit and loss shown above.

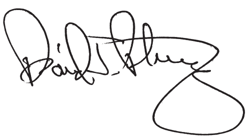
Group balance sheet

As at 30 June 2007

	Note	**2007 £'000**	2006 £'000
Fixed assets			
Intangible assets	11	**6,298**	–
Tangible assets	12	**656**	–
		6,954	–
Current assets			
Stocks	13	**371**	–
Debtors	14	**717**	466
Cash at bank and in hand		**2,428**	7,669
		3,516	8,135
Creditors: amounts falling due within one year	15	**(1,317)**	(476)
Net current assets		**2,199**	7,659
Total assets less current liabilities		**9,153**	7,659
Creditors: amounts falling due after one year	16	**(105)**	–
Provisions for liabilities	17	**(956)**	–
Net assets		**8,092**	7,659
Capital and reserves			
Called up share capital	19	**747**	523
Capital redemption reserve	20	**253**	253
Merger reserve	20	**3,250**	–
Profit and loss account	20	**3,842**	6,883
Total equity shareholder's funds	21	**8,092**	7,659

These financial statements were approved by the Board of Directors on 14 November 2007.

Signed on behalf of the Board of Directors



David J. Plucinsky

Director

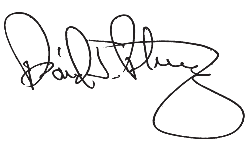
Balance sheet

As at 30 June 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Investments	9	**8,500**	3,776
Current assets			
Debtors due in one year	14	**1,478**	466
Debtors due after one year	14	**3,000**	–
Cash at bank and in hand		**1,958**	7,669
		6,436	8,135
Creditors: amounts falling due within one year	15	**(4,038)**	(4,303)
Net current assets		**2,398**	3,832
Total assets less current liabilities		**10,898**	7,608
Net assets		**10,898**	7,608
Capital and reserves			
Called up share capital	19	**747**	523
Capital redemption reserve	20	**253**	253
Merger reserve	20	**3,250**	–
Profit and loss account	20	**6,648**	6,832
Total equity shareholder's funds	21	**10,898**	7,608

These financial statements were approved by the Board of Directors on 14 November 2007.

Signed on behalf of the Board of Directors



David J. Plucinsky

Director

Group cash flow statement

As at 30 June 2007

		12 months ended 30 June 2007 £'000	18 months ended 30 June 2006 £'000
Net cash (outflow) from operating activities	23a	**(2,382)**	(465)
Returns on investments and servicing of finance	23b	**188**	555
Taxation		**–**	–
Capital expenditure and financial investment	23b	**(321)**	–
Acquisitions	23b	**(2,719)**	–
Cash (outflow)/inflow before liquid resources and financing		**(5,234)**	90
Management of liquid resources	23b	**–**	(119)
Financing	23b	**(7)**	–
(Decrease) in cash in the period	23c	**(5,241)**	(29)

All amounts are derived from continuing activities.

Notes to the financial statements

For the year ended 30 June 2007

1 ACCOUNTING POLICIES

The financial statements are prepared in accordance with United Kingdom law and accounting standards. The particular accounting policies adopted, which have been applied consistently in the current and prior year, are described below.

Accounting convention
The financial statements are prepared under the historical cost convention.

Consolidation
The Group's accounts include the accounts of the Company and all of its subsidiary undertakings during the year. The results of subsidiary undertakings and businesses acquired during the period are included from date of acquisition.

Share based payments
FRS20 "Share based Payment" requires the recognition of share based payments at fair value at the date of grant. The Group has applied FRS 20 from 1 January 2005, In accordance with the transitional provisions, FRS20 is applicable only to those grants of equity instruments after 7 November 2002 that remained unvested as of 1 January 2005. FRS 20 has not been applied to unexercised share options at the period end which were granted before 7 November 2002 and vested prior to 1 January 2005. The adoption of FRS 20 has not had a material impact on the current period and no prior period adjustments were required.

Goodwill
Goodwill arising on the acquisition of subsidiary undertakings during the year representing any excess of the fair value of the consideration given over the identifiable assets and liabilities acquired is capitalised and amortised over its useful economic life, which is 20 years.

Investments
Investments held as fixed assets are stated at cost less provision for any impairment. Income is included in the accounts in the year in which it is receivable.

Tangible fixed assets
On other fixed assets depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Plant, Fixtures and fittings	10% to 20% per annum
Motor vehicles	25% per annum

Stocks and work in progress
Stocks are stated at the lower of cost and net realisable value. Cost includes materials and direct labour. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Long-term contracts
Amounts recoverable on long term contracts, which are included in debtors are stated at the net value of the work done less any amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales less provision for contingencies and anticipated future losses on contracts, included as long term contract balances in stock.

Turnover
Turnover represents the invoiced value of goods and services supplied by the Company except in respect of long term contract work where revenue recognised in this manner is based on an assessment of the fair value of the work completed at the balance sheet date as a proportion of the total value of the contract but excluding Value Added Tax. Revenue is only recognised where the Company has a contractual right to receive consideration for work undertaken.

1 ACCOUNTING POLICIES continued

Research and development
Research and development costs are written off in the year that they are incurred.

Foreign currency
Transactions undertaken in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Balances outstanding at the period end are translated at the exchange rate ruling at the balance sheet date. All translation differences are dealt with in the profit and loss account.

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.

Taxation
Current tax including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

Retirement Benefits
Stakeholder Pension Scheme
The Company offers a stakeholder plan. This is open to all employees. The pension costs charged against operating profits are the contributions payable to the stakeholder plans in respect of the year.

Notes to the financial statements

For the year ended 30 June 2007

2 REVENUE, OPERATING LOSS AND NET ASSETS

Revenue, operating loss and net assets originate in the United Kingdom.

The geographical analysis of revenue by destination is as follows:

	12 months ended 30 June 2007 £'000	18 months ended 30 June 2006 £'000
United Kingdom	**1,403**	–
Other EU	**713**	–
Rest of World	**1,946**	–
	4,062	–

3 STAFF COSTS

Group

Employees

The average monthly number of people employed during the year (excluding directors) was:

	12 months ended 30 June 2007 No.	18 months ended 30 June 2006 No.
Engineering	**52**	–
Logistics and supplies	**10**	–
Sales and marketing	**9**	–
Support	**10**	–
	81	–

Staff costs (excluding directors remuneration) incurred during the year in respect of these employees was:

	12 months ended 30 June 2007 £'000	18 months ended 30 June 2006 £'000
Salaries	**1,825**	–
Social security costs	**206**	–
Other pension costs – stakeholder	**59**	–
	2,090	–

Company

The directors were employed by the Company and their remuneration is disclosed in note 4 to the financial statements.

4 DIRECTORS

The emoluments of the directors of the Company comprise the following:

	12 months ended 30 June 2007 £'000			18 months ended 30 June 2006 £'000	
Name of director	Salary	Pension	**Total**	Salary	Total
Executive:					
M. E. Heath	129	30	**159**	–	–
A. J. Tonks	65	3	**68**	–	–
Non-executive:					
D. J. Plucinsky	110	–	**110**	85	85
J. G. Bateson	10	–	**10**	15	15
P. G. Dumond	10	–	**10**	15	15
W. D. Eberle	10	–	**10**	15	15
C. H. B. Mills	10	–	**10**	15	15
R. J. McCabe	3	–	**3**	15	15
	347	33	**380**	160	160

No pension contributions were paid on behalf of the directors for the period ended 30 June 2006.

5 INTEREST RECEIVABLE AND PAYABLE

Group

	12 months ended 30 June 2007 £'000	18 months ended 30 June 2006 £'000
Bank interest receivable	**224**	512
Bank interest payable and similar charges	**(36)**	–
	188	512

Notes to the financial statements

For the year ended 30 June 2007

6 OPERATING LOSS

The operating loss is stated after charging:

	12 months ended 30 June 2007 £'000	18 months ended 30 June 2006 £'000
Depreciation and amortisation on owned assets:		
– intangible fixed assets	**245**	–
– tangible fixed assets	**127**	–
Operating lease rentals – land and buildings	**196**	–
Development costs – engineering	**436**	–
Development costs – air disinfection	**1,377**	–
Staff costs	**2,090**	–
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**8**	8
Fees payable to the Company's auditor for other services:		
– audit of the Company's subsidiaries	**20**	8
– other services	**17**	77
– taxation fees	**5**	–

The auditors also received fees in connection with the acquisition of Inov8 Technologies Limited and Moving Sun Limited which totalled £107,000 (18 months ended 30 June 2006: £57,000).

7 (LOSS)/EARNINGS PER SHARE

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

(Loss)/earnings	**12 months ended 30 June 2007 £'000**	18 months ended 30 June 2006 £'000
(Loss)/earnings for the purposes of basic earnings per share being the net (loss)/profit attributable to equity holders of the parent	**(3,041)**	95
(Loss)/earnings for the purposes of diluted earnings per share being the net (loss)/profit attributable to equity holders of the parent:	**(3,041)**	95

Number of shares	**12 months ended 30 June 2007**	18 months ended 30 June 2006
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share:	**68,799,405**	52,315,751
Effect of potentially dilutive ordinary shares:		
Share options	**2,275,000**	2,000,000
Weighted average number of shares for the purpose of diluted (loss)/earnings per share	**71,074,405**	54,315,751

(Loss)/earnings per share	**12 months ended 30 June 2007**	18 months ended 30 June 2006
Basic (loss)/earnings per share	**(4.42)p**	0.18p
Diluted (loss)/earnings per share	**(4.42)p**	0.17p

8 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	12 months ended 30 June 2007 £'000	18 months ended 30 June 2006 £'000
UK corporation tax	**–**	–
Adjustment in respect of prior periods	**–**	–
Total current tax	**–**	–
Deferred taxation – timing differences	**–**	–
Tax on (loss)/profit on ordinary activities	**–**	–

The differences between the total current tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

(Loss)/profit on ordinary activities before tax	**(3,041)**	95
Tax on (loss)/profit on ordinary activities at 30% (2006: 30%)	**(912)**	29
Factors affecting charge for the year:		
– capital allowances in excess of depreciation	**40**	–
– disallowable expenditure	**98**	–
Total current tax	**(774)**	29
Increase in/(utilisation) of losses in the period	**774**	(29)
Tax charge in the period	–	–

The Group has tax losses rising in the UK of £7,239,000 (2006: £3,289,000) that are available indefinitely for offset against future taxable profits in those companies in which the losses arose.

There are unprovided deferred tax assets as follows:

	Group		**Company**	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Accelerated capital allowances	**190**	–	**–**	–
Unutilised tax losses	**2,172**	986	**853**	812
Capital losses	**2,121**	1,630	**–**	–
	4,483	2,616	**853**	812

The movement for the year reflects the unprovided deferred tax assets that were acquired from Inov8 Technologies Limited on 5 October 2006. These are expected to be offset against future trade.

Notes to the financial statements

For the year ended 30 June 2007

9 INVESTMENTS

	Shares in subsidiary undertakings £'000
Cost	
At 1 July 2006	29,915
Additions	4,724
At 30 June 2007	34,639
Provision	
At 1 July 2006 and at 30 June 2007	(26,139)
Net book value	
At 30 June 2007	8,500
At 30 June 2006	3,776

At 30 June 2007, the Company had an interest in the following subsidiaries; all of which are registered in England and Wales except where stated:

	Activity	Holding
Inov8 Technologies Limited	Trading	100%
Inov8 Science Limited	Non-trading [1]	100%
Moving Sun Limited	Non-trading [2]	100%
DSC (Consumer Products) Limited	Dormant	100%
Juneau Limited	Dormant	100%
Ketchican Limited	Dormant	100%
Mid-States Investments Limited	Dormant	100%
Old Stylus Limited	Dormant	100%
Scagway Limited	Dormant	100%

[1] Inov8 Science Limited commenced trading in the year ending 30 June 2008.
[2] Moving Sun Limited owns the intellectual property rights acquired by Mid-States PLC on 5 October 2006.

The (loss) after tax and share capital and reserves at the balance sheet date were as follows:

	(Loss) after tax £'000	Share capital and reserves £'000
Inov8 Technologies Limited	(3,337)	(3,337)

10 ACQUISITION OF SUBSIDIARY UNDERTAKINGS

On the 5 October 2006 the Company acquired 100% of the issued share capital of Inov8 Technologies Limited and Moving Sun Limited for consideration comprising the issue of 22,410,361 ordinary shares of each in the Company, representing 29.99% of the issued share capital of the enlarged Group. The fair value of the net liabilities acquired was £1,819,000 and the total consideration was £4,724,000.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Group. The fair value adjustment relates to a provision for an onerous lease on a vacant property.

	Book value £'000	Fair value adjustment £'000	Fair value £'000
Fixed assets			
Fixed assets	462	–	462
Current assets			
Stocks	756	–	756
Debtors	1,366	–	1,366
Total assets	2,584	–	2,584
Creditors			
Bank overdraft	(1,908)	–	(1,908)
Creditors	(1,220)	–	(1,220)
Loan note	(100)	–	(100)
Provisions			
Warranty	(258)	–	(258)
Other	(308)	(609)	(917)
Total liabilities	(3,794)	(609)	(4,403)
Net liabilities	(1,210)	(609)	(1,819)
Consideration			
Consideration – shares issued	3,474	–	3,474
Deal costs	1,250	–	1,250
Total consideration	4,724	–	4,724
Goodwill			**6,543**

Net cash outflows in respect of the acquisition comprised:	
Cash consideration	–
Bank overdraft acquired	(1,908)
Deal costs	(811)
	(2,719)

The previous accounting period of Inov8 Technologies Limited commenced on 28 July 2006. The turnover for the period up to 5 October when the Company was acquired by the Group was £787,947, the operating loss for this period was £673,158 and the loss before and after tax was £673,922.

11 INTANGIBLE ASSETS

Group

	Total £'000
Goodwill	
Cost	
On acquisition of subsidiary	6,543
At 30 June 2007	6,543
Amortisation	
Charge for the year	245
At 30 June 2007	245
Net book value	
At 30 June 2007	6,298
At 30 June 2006	–

The calculation of goodwill arising on acquisition of subsidiary is detailed in note 10 to the financial statements.

12 TANGIBLE ASSETS

Group

	Plant & machinery £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 July 2006	–	–	–	–
Acquisition of subsidiary	379	68	15	462
Additions	319	2	–	321
Disposals	–	–	–	–
At 30 June 2007	698	70	15	783
Depreciation				
Charge for the year	90	32	5	127
At 30 June 2007	90	32	5	127
Net book value				
At 30 June 2007	608	38	10	656
At 30 June 2006	–	–	–	–

The net book value of assets held under finance leases was £10,000 (2006: £nil). Depreciation charged in the year in relation to this asset was £5,000 (2006: £nil).

Company

The Company had no fixed assets during the year.

13 STOCKS

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Raw materials	**159**	–	**–**	–
Finished goods	**75**	–	**–**	–
Long term contract balances	**137**	–	**–**	–
	371	–	**–**	–

14 DEBTORS

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Amounts falling due in one year:				
Trade debtors	**475**	–	**–**	–
Value added tax recoverable	**66**	16	**20**	16
Amounts recoverable on contracts	**53**	–	**–**	–
Prepayments and accrued income	**123**	450	**10**	450
Amounts due from other Group undertakings	**–**	–	**1,448**	–
	717	466	**1,478**	466
Amounts falling due after one year:				
Amounts due from other Group undertakings	**–**	–	**3,000**	–
	–	–	**3,000**	–

Notes to the financial statements

For the year ended 30 June 2007

15 CREDITORS: amounts falling due within one year

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Trade creditors	**589**	71	**41**	71
Amounts owed to other Group undertakings	**–**	–	**3,834**	3,834
Social security and other taxes	**86**	–	**–**	–
Other creditors	**46**	16	**31**	10
Payments on account	**287**	–	**–**	–
Accruals and deferred income	**303**	389	**132**	388
Obligations under finance leases and hire purchase agreements	**6**	–	**–**	–
	1,317	476	**4,038**	4,303

16 CREDITORS: amounts falling due after one year

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Loan notes	**100**	–	**–**	–
Obligations under finance leases and hire purchase agreements	**5**	–	**–**	–
	105	–	**–**	–
Amount falling due:				
within one year	**5**	–	**–**	–
in one to two years	**–**	–	**–**	–
between two to five years	**100**	–	**–**	–
after five years	**–**	–	**–**	–

The loan notes were issued by Inov8 Technologies Limited on 28 July and are repayable in 2011, they bear interest at 0.5 per cent below the Bank of England repro rate.

17 PROVISIONS FOR LIABILITIES

Group

	Warranty provision £'000	Onerous lease and repairs provision £'000	Other £'000	Total £'000
At 1 July 2006	–	–	–	–
Acquisition of subsidiary undertaking	258	759	158	1,175
Charged to profit and loss account	65	–	11	76
Utilised in year	(143)	(94)	(16)	(253)
Released unused	(42)	–	–	(42)
At 30 June 2007	138	665	153	956

The provision for the onerous lease and property repairs is in respect of a leasehold property of Inov8 Technologies Limited, from which the Company does not trade and the net cost of exiting from the lease or sub-letting the property exceed the economic benefits expected to be received.

The warranty liability is an estimate of the future costs likely to be incurred based on the warranty terms offered to customers on equipment sold.

18 FINANCIAL INSTRUMENTS

As permitted by FRS13: "Derivatives and other financial instruments", short term debtors and creditors have been excluded from the interest rate disclosures.

At 30th June 2007, the Group had sterling cash deposits of £2,428,000 (2006: £7,669,000) which are held on short-term deposit at the money market rate prevailing at the time of placing. The short-term money market rates are ultimately based on the Bank of England base rate and expected future movements thereon.

The fair value of the financial instruments are not significantly different to the book value.

19 CALLED UP SHARE CAPITAL

For the year ended 30 June 2007 called up share capital comprises ordinary shares of one pence each as follows:

	Authorised		Allotted called up and fully paid	
	Number of shares	£'000	Number of shares	£'000
At 1 July 2006	85,000,000	850	52,315,751	523
Share issued on 5 October 2006	35,000,000	350	22,410,361	224
At 30 June 2007	120,000,000	1,200	74,726,112	747

The 22,420,361 ordinary shares were issued on 5 October 2006 as consideration for Inov8 Technologies Limited and Moving Sun Limited. The issue price at this date was 15.5 pence and created a merger reserve of £3.2m.

19 CALLED UP SHARE CAPITAL continued

Options

The following options, which include those detailed in the Directors' report, granted under the US Option Plan and 1999 Stock Option Plan were outstanding at 30 June 2007:

Date of grant	Pre variation Exercise price	Post variation Exercise price	Expiry date	**30 June 2007 Number of ordinary shares**	30 June 2006 Number of ordinary shares
27 August 1998	21.5p	11.2p	27 August 2008	**350,000**	350,000
1 December 1998	23.0p	12.7p	1 December 2008	**750,000**	750,000
8 December 1998	23.5p	13.2p	8 December 2008	**300,000**	300,000
23 August 2000 (1999 Stock Option Plan)	23.5p	13.2	23 August 2000	**300,000**	300,000
1 October 2001 (1999 Stock Option Plan)	19.0p	8.7p	1 October 2011	**300,000**	300,000
8 Nov 2006	17.25p	n/a	8 November 2016	**100,000**	100,000
29 Mar 2007	18.25p	n/a	29 March 2017	**175,000**	175,000

The exercise prices were reduced by approximately 10.3p from the original price when issued, in accordance with the resolutions approved by the shareholders at the Extraordinary General Meeting on 1 April 2003. These provided that the option exercise prices be reduced by the capital amount per share returned to shareholders under the capital reduction effected on 15 May 2003.

All options before 2000 were granted under the Company's US Stock Option Plan and all in and after 2001 were granted under the Company's 1999 Stock Option Plan. Options normally become exercisable in tranches of one third on each anniversary of the date of the grant commencing on the first anniversary following the date of grant. Performance criteria on the above options are all historic and no longer apply since the disposal of former US operations.

20 STATEMENT OF MOVEMENT ON RESERVES

Group

	Capital redemption reserve £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At 1 July 2006	253	–	6,883	7,136
(Loss) for the year	–	–	(3,041)	(3,041)
Shares issued on acquisition of subsidiary	–	3,250	–	3,250
At 30 June 2007	253	3,250	3,842	7,345

Company

	Capital redemption reserve £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At 1 July 2006	253	–	6,832	7,085
(Loss) for the year	–	–	(184)	(184)
Shares issued on acquisition	–	3,250	–	3,250
At 30 June 2007	253	3,250	6,648	10,151

21 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group

	12 months ended 30 June 2007 £'000	18 months ended 30 June 2006 £'000
(Loss)/profit for the year/period	**(3,041)**	95
Shares issued in the year on acquisition of subsidiary	**3,474**	–
Net addition to shareholders' funds	**433**	95
Opening shareholders' funds	**7,659**	7,564
Closing shareholders' funds	**8,092**	7,659

Company

	12 months ended 30 June 2007 £'000	18 months ended 30 June 2006 £'000
(Loss)/profit for the year/period	**(184)**	95
Shares issued in the year on acquisition of subsidiary	**3,474**	–
Net addition to shareholders' funds	**3,290**	95
Opening shareholders' funds	**7,608**	7,513
Closing shareholders' funds	**10,898**	7,608

22 LEASING COMMITMENTS

At 30 June 2007, the Company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings 2007 £'000	**Other 2007 £'000**	Land and buildings 2006 £'000	Other 2006 £'000
Leases which expire:				
In less than five years	**320**	**138**	–	–
In more than five years	**364**	**–**	–	–

Notes to the financial statements

For the year ended 30 June 2007

23 NOTES TO THE GROUP CASH FLOW STATEMENT

a. Reconciliation of operating (loss) to net cash (outflow) from operating activities

	12 months ended 30 June 2007 £'000	18 months ended 30 June 2006 £'000
Operating (loss)	**(3,229)**	(417)
Depreciation	**127**	–
Amortisation	**245**	–
Decrease in stocks	**385**	–
Decrease/(increase) in debtors	**676**	(448)
(Decrease)/increase in creditors	**(367)**	400
(Decrease)/increase in provisions	**(219)**	–
Net cash (outflow) from operating activities	**(2,382)**	(465)

b. Analysis of cash flows

	12 months ended 30 June 2007 £'000	18 months ended 30 June 2006 £'000
Returns on investments and servicing of finance		
Interest received	**224**	555
Interest paid	**(36)**	–
Net cash inflow	**188**	555
Capital expenditure and financial investment		
Purchase of fixed assets	**(321)**	–
Net cash (outflow)	**(321)**	–
Acquisitions and disposals		
Purchase of subsidiary	**(811)**	–
Net overdrafts acquired with subsidiary	**(1,908)**	–
Net cash (outflow)	**(2,719)**	–
Management of liquid resources		
Transfer (to) deposit	**–**	(119)
Net cash (outflow)	**–**	(119)
Financing		
Capital element of finance leases	**(7)**	–
Net cash (outflow)	**(7)**	–

23 NOTES TO THE GROUP CASH FLOW STATEMENT

c. Analysis and reconciliation of net funds

	1 July 2006 £000	Cash flow £'000	Acquisition (excl cash) £'000	**30 June 2007 £'000**
Cash at bank and in hand	7,669	(5,241)	–	**2,428**
Finance leases within one year	–	–	(6)	**(6)**
Finance leases after one year	–	7	(12)	**(5)**
Other loan after one year	–	–	(100)	**(100)**
Net funds	7,669	(5,234)	(118)	**2,317**

24 CAPITAL COMMITMENTS

At 30 June 2007 there were capital commitments contracted for but not provided of £39,214 (2006: £nil).

25 CONTINGENT LIABILITIES

There were no contingent liabilities at 30 June 2007 (2006: £nil).

26 PENSION COMMITMENTS

The Group's pension cost for the year ended 30 June 2007 was £92,000 (18 months ended 30 June 2006: £nil).

Stakeholder Pension Scheme

The Group offers a stakeholder plan. This is open to all employees. The employee contribution rate is 3% of Basic Salary and the employers' contribution rate is 3% of Basic Salary for all employees.

The Group's pension cost in respect of the stakeholder plans for the year ended 30 June 2007 was £92,000 (18 months ended 30 June 2006: £nil).

27 POST BALANCE SHEET EVENTS

On the 9 November 2007 the Company announced the cash Placing of 3,736,300 Ordinary Shares at 26 pence per share, raising £971,439 before expenses. The shares were issued and available to trade on the open market from 14 November 2007.

28 RELATED PARTY TRANSACTIONS

During the year the Chairman provided consultancy services to the Group in relation to the acquisition of Inov8 and Moving Sun. The total consideration in respect of these services was £89,750.

Amounts owed by and to associated undertakings are disclosed in notes 14 and 15. These amounts all relate to trading balances except for the loan to Inov8 Technologies of £3.0m (2006 £nil) included in note 14.

Profiles of directors

David J. Plucinsky, Chairman
David Plucinsky aged 58, became Chairman in December 1998, having been appointed to the board in March 1998. He was Chief Executive on an interim basis from April to November 1998, previously having acted as a consultant to the Company in 1997. He runs his own consultancy practice and serves on the Board of several public and private companies.

Michael E. Heath, Managing Director
Michael Heath, aged 56, was appointed Managing Director in October 2006. He was previously, and continues to be, a director of Inov8 Technologies Limited, one of the Company's principal subsidiaries. Prior to joining Inov8, Mike had 25 years of experience of working in corporate banking and corporate recovery, and has considerable experience of working in China.

Andrew J. Tonks, Finance Director
Andrew Tonks, aged 44, was appointed Finance Director in June 2007 and is a Certified Accountant. Prior to joining Mid-States, Andrew had gained extensive experience having held senior finance positions within a number of publicly listed groups including NSB Retail Systems, Alvis, ML Holdings and BTR.

John G. Bateson, Non-Executive Director
John Bateson, aged 44, was appointed a Non-Executive Director in July 1997. John is Chairman of the Audit, and a member of the Remuneration and Nominations Committees. He is a Fellow of the Institute of Chartered Accountants in Ireland, and is Finance Director and Company Secretary of the fund management group International Investment and Underwriting. He was formerly with the corporate finance department of NCB, an Irish stockbroker, and KPMG.

Paul G. Dumond, Non-Executive Director
Paul Dumond, aged 52, was appointed a Non-Executive Director in May 1996. Paul is a member of the Audit, Remuneration and Nominations Committees. He served as Company Secretary from October 1989 to June 1998. He is a Chartered Accountant and was formerly Chief Financial Officer Europe and Company Secretary of Danka Business Systems PLC and Finance Director of Aberdeen Petroleum PLC. He is currently the Chief Operating Officer of the fund management group CIM Investment Management.

The Hon. William D. Eberle, Non-Executive Director
William Eberle, aged 84, was appointed a Non-Executive Director in June 1991. Bill is a member of the Audit, Remuneration and Nominations Committees. He served as a Special Trade Representative during the Nixon and Ford administrations. A Director of various U.S. corporations, he was founder of Boise Cascade and served as Chairman and Chief Executive of American Standard. Currently, he is Vice Chairman of the US Council of the International Chamber of Commerce and Director of several New York Stock Exchange companies.

Christopher H. B. Mills, Non-Executive Director
Christopher Mills, aged 55, was appointed a Non-Executive Director in January 1988. Christopher is Chairman of the Nominations, and a member of the Audit and Remuneration Committees. He is a Director and Chief Executive of North Atlantic Smaller Companies Investment Trust PLC. He is a Director of several other listed companies. He is a Director and principal shareholder in Growth Financial Services Limited. He spent 22 years at Montague Investment Management Limited and its successor AMNVESCAP Plc as an Investment Manager and Director before joining JO Hambro Capital Management Group in 1993. He is currently a member and Chief Investment Officer of North Atlantic Value LLP, a subsidiary of JO Hambro Capital Management Limited.

The Company's Annual General Meeting will be held at the offices of the Company, Masters House, 107 Hammersmith Road, London W14 0QH at 11am on Monday 17 December 2007. The Notice of the Meeting follows, and sets out the business to be transacted. An explanation of each of the resolutions follows below.

ORDINARY BUSINESS

Resolution 1: Adoption of Accounts

This is an ordinary resolution for the adoption of the Annual Report and Accounts for the financial year ended 30 June 2007.

Resolutions 2, 3 and 4: Re-appointment of Directors

The Company's Articles of Association require that, every year, a number not exceeding one third of the non-executive directors, retire from office and seek re-appointment. This year David J. Plucinsky and John G. Bateson retire in this way and resolutions 2 and 3 are for their re-appointment. The Articles also require that any Director who was appointed by the Board since the last Annual General Meeting retire from office and, if appropriate, seek re-appointment. This year, Andrew J. Tonks retires in this way and resolution 4 is for his re-appointment.

Resolution 5: Re-appointment of Auditors

The Company's Auditors are required to be re-appointed at every Annual General Meeting. Resolution 5 is to approve the re-appointment of Grant Thornton LLP and, in accordance with normal practice, to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

Resolution 6: Allotment of Relevant Securities

This is an ordinary resolution to renew the authority granted to the Board at the Extraordinary General Meeting held on 6 September 2006 to allot relevant securities in terms of Section 80 of the Companies Act 1985, up to an aggregate nominal amount of £261,541.

Resolution 7: Disapplication of Pre-emption Rights

Resolution 7 is a special resolution which would renew the power granted to the directors at the Extraordinary General Meeting held on 6 September 2006 to disapply the statutory pre-emption rights under section 95 of the Companies Act 1985 thus overcoming certain technical difficulties that may arise in connection with a rights issue or grant of options. It also permits issues of the Company's share capital for cash, other than pro-rata to shareholders, up to an aggregate nominal value of £784,624. This represents approximately 10% of the ordinary share capital currently in issue.

Resolution 8: Authority to Buy Back the Company's Own Shares

This is a special resolution to authorise the Company to buy back its own shares. No purchases will be made unless the directors consider the purchases to be in the interests of shareholders generally. The proposed authority will be limited by the terms of the resolution to purchases of up to 11,769,360 ordinary shares (representing approximately 15% of the share capital of the Company currently in issue) made through The London Stock Exchange at prices not exceeding 105% of the average of the middle market quotations derived from The London Stock Exchange Daily Official List for the five business days before each purchase.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Mid-States PLC will be held at the offices of the Company, Masters House, 107 Hammersmith Road, London W14 0QH at 11am on Monday 17 December 2007.

Agenda

To consider and if thought fit to approve the following ordinary resolutions numbered 1 to 6:

1. To receive and adopt the Annual Report and Accounts for the year ended 30 June 2007.

2. To re-appoint David J. Plucinsky as a director.

3. To re-appoint John G. Bateson as a director.

4. To re-appoint Andrew J. Tonks as a director.

5. To re-appoint Grant Thornton LLP as auditors and authorise the directors to fix their remuneration.

6. That the Directors be and they are hereby generally and unconditionally empowered, in place of all existing authorities under Section 80 of the Companies Act 1985, to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £261,541 provided that this authority shall expire on 16 December 2012 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

7. To consider and, if thought fit, to approve the following Special Resolution:

   That subject to the passing of the previous resolution the Directors be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot equity securities (within the meaning of Section 94(2) of the Companies Act 1985) for cash, and to sell treasury shares for cash (within the meaning of Section 162D of the Companies Act 1985), as if Section 89(1) of the Companies Act 1985 did not apply to such allotment, provided that this authority shall:

   a. expire on 16 December 2012 save that the Directors may allot equity securities and sell treasury shares for cash under this authority after the expiry thereof pursuant to any offer or agreement made by the Company on or before such expiry date pursuant to this authority as if such authority had not expired; and

   b. be limited to the allotment of equity securities and the sale of treasury shares for cash:

      (i) in connection with a rights issue or any other pre-emptive offer concerning equity securities in the Company where it is, in the opinion of the Directors, necessary or expedient to allot equity securities otherwise than in accordance with Section 89 of the Companies Act 1985 by reason of the rights attached to any shares or securities of the Company or in relation to fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body or stock exchange in any territory; and

      (ii) pursuant to the terms of any stock option plan or share option scheme or other plan for employees and/or executive or non-executive directors approved by the company in General Meeting, up to an aggregate nominal value of £784,624; and

      (iii) otherwise than pursuant to sub-paragraph (i), up to an aggregate nominal value not exceeding £784,624.

8. To consider and, if thought fit, to approve the following Special Resolution:

   That the Company is hereby generally and unconditionally authorised for the purposes of Section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of Section 163 of the Companies Act 1985) of ordinary shares of £0.01 each in the capital of the Company ("Ordinary Shares") with effect from the conclusion of this meeting provided that:

   a. the maximum aggregate number of Ordinary Shares authorised to be purchased is 11,769,360; and

   b. the minimum price which may be paid for each Ordinary Share is £0.01 (exclusive of expenses); and

   c. the maximum price (inclusive of expenses) which may be paid for each such Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such Ordinary Share is purchased; and

   d. the Company may make a contract to purchase its Ordinary Shares under this authority prior to the expiry thereof, which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of its Ordinary Shares pursuant to any such contract; and

   e. This authority shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 31 December, 2008.

By Order of the Board
Anthony G. Hunter
Secretary

14 November 2007

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A form of proxy is enclosed with this notice.
2. To be valid, the Form of Proxy and any power of attorney, or notarially certified copy thereof, under which it is executed, must be lodged with Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH not later than 48 hours before the time fixed for the holding of the meeting or adjourned meeting. The completion and return of the proxy form does not preclude a member from attending the meeting and voting in person.
3. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 specifies that only those shareholders registered in the register of members of the Company as at 11am on 15 December 2007 shall be entitled to attend or vote at this meeting in respect of the number of shares registered in their name at that time. Changes in entries on the relevant register of members after that time shall be disregarded in determining the rights of any person to attend or vote at this meeting.
4. If, however, the meeting is adjourned for more than 48 hours, then to be so entitled to attend and vote members must be entered on the Company's register of members at a time which is 48 hours before the time fixed for the adjourned meeting.