



equipment directed toward meeting emission requirements and increasing fuel efficiency. Its customers include manufacturers such as Ford, Renault and Volkswagen as well as tier one suppliers including Siemens, Delphi and Denso. The Group is well positioned to take advantage of the demand that will be generated by the increasingly stringent EU and US emission regulations.

The Group is also planning to launch its ground breaking new air disinfection unit. David Macdonald, the Group's new Chief Scientific Officer, has developed the technology behind this unit over the past several years. It is based on research conducted by Professor Derek Elwood, a consultant to the Group, when he was working at the government research facility at Porton Down.

The air disinfection device generates a continuous cascade of hydroxyl radicals indoors, reproducing the same effect as occurs naturally outdoors. This effect is scientifically proven to be effective in an enclosed environment in killing well publicised pathogens including MRSA, E. coli and C. diff in addition to those associated with influenza and other illnesses. It is suitable for use in a variety of environments including hospitals, care homes, offices, hotels and domestic homes.

Development of the ground breaking air disinfection technology has progressed well since the acquisition. The device is currently undergoing testing at the Health Protection Agency at Porton Down, the Health and Safety Executive laboratory in Buxton and two universities. In addition, trials in a small number of hospitals in the United Kingdom are expected to commence shortly to provide further validation of its efficacy. A commercial product launch is planned before we next report to you.

#### Financial Review

Turnover in the period of £1.3 million was attributable to Inov8 and its established fuel system testing business. A significant proportion of the turnover of the fuel system testing business relates to long-term contracts where the revenue recognised represents the value of work carried out during the financial period on the basis of the percentage of the total work on the project that has been completed. A number of projects were in progress at 31 December 2006 on which revenues will be recognised in the second half of the financial year.

The net loss before taxation amounted to £1.0 million (2005: profit of £12,000). This is after charging goodwill amortisation of £74,000 (six months to 31 December 2005: Nil). The results for the period have been affected by lower than anticipated project activity in the fuel system testing business and the cost of R&D, in particular continuing the development of the air disinfection technology.

On the basis of an after tax loss of £1.0 million (2005: profit of £12,000) and the weighted average number of shares in issue during the period of 62,905,262 (2005: 52,315,751) the loss per share was 1.58p (2005: earnings per share 0.14p).

At 31 December 2006 the enlarged Group had net assets of £10.1 million (31 December 2005: £7.6 million) and cash balances totalling £3.3 million (31 December 2005: £7.7 million).

#### Operations

During the last six months automotive manufacturers have delayed investment in fuel system testing technology whilst the EU and the US finalise the tightening of emission regulations to address growing environmental concerns. This tightening of regulations is expected to lead to an increase in opportunities

for the Group. Despite the continued difficult trading conditions that exist within the global automotive market we have had a number of notable successes within the six month period. For example, we have installed a high pressure common rail test stand incorporating our Akribis technology into a new customer's development facility in Japan. The Akribis metering system has been selected by three new customers as their metering unit of choice for both common rail diesel and high pressure gasoline research and development. This should prove positive for future business prospects as these companies move product into volume production. We have recently completed the installation of another gasoline injector test facility in Shanghai and continue to see increased interest in our technology from China.

#### Management Appointment

Andrew Tonks has been appointed Chief Financial Officer of the Group. 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.

#### Outlook

The development of the air disinfection technology will continue in the second half of the financial year and preparations have commenced for the launch of a product aimed at both the commercial and retail market in the United Kingdom. The Group is well placed to benefit from the significant market potential in reducing high profile health concerns over viruses and infections such as MRSA, E. coli and C. diff plus those that impact our daily lives such as influenza.

Demand for the fuel system testing technology and the provision of equipment directed toward meeting emission requirements and increasing fuel efficiency is dependent on the automotive manufacturers and tier one suppliers. Nevertheless Inov8 is a global leader in this technology with a proven record of developing and delivering quality products to meet its customers' needs and is well placed to take advantage of the growth generated by the tightening of regulations in the EU and US on automotive emissions and increasing fuel efficiency.

Since the acquisition of Inov8 Technologies completed in October 2006, the newly combined Group has made solid progress. I look forward to reporting further at the time of the Company's annual results on the launch of our new air disinfection device and the growth in demand for our market leading fuel system testing technologies.

David J. Plucinsky  
Chairman

#### GROUP PROFIT AND LOSS ACCOUNT For the 6 months ended 31 December 2006

	Notes	Six months to 31 December 2006 £000's (unaudited)	Six months to 31 December 2005 £000's (unaudited)	Eighteen months to 30 June 2006 £000's (audited)
Turnover				
- Acquisitions		1,319	-	-
Turnover		1,319	-	-
Cost of Sales		(887)	-	-

Gross Profit		432	-	-
Operating expenses				
- Continuing operations		(341)	(158)	(417)
- Acquisitions		(1,202)	-	-
-----				
Operating loss		(1,111)	(158)	(417)
Net interest receivable		119	170	512
-----				
(Loss) / profit before tax		(992)	12	95
Tax on profit on ordinary activities	2	-	-	-
-----				
(Loss) / profit after tax		(992)	12	95
=====				
 (Loss) / earnings per share:				
- Basic	3	(1.58p)	0.14p	0.18p
- Diluted		(1.58p)	0.14p	0.17p

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

GROUP BALANCE SHEET  
At 31 December 2006

	Notes	31 December 2006 £000's (unaudited)	31 December 2005 £000's (unaudited)	30 June 2006 £000's (audited)
-----				
Fixed assets				
Intangible assets		5,858	-	-
Tangible assets		471	-	-
-----				
		6,329	-	-
Current assets				
Stock		736	-	-
Trade debtors		2,177	-	-
Prepayments and accrued income		387	42	466
Cash and cash equivalents		3,344	7,662	7,669
-----				
		6,644	7,704	8,135
Creditors - due within one year				
Trade creditors		(987)	(66)	(71)
Sundry creditors		(383)	-	(16)
Accruals and deferred income		(972)	-	(389)
-----				
		(2,342)	(66)	(476)
-----				
Net current assets		4,302	7,638	7,659
-----				
Total assets less current liabilities		10,631	7,638	7,659

Creditors - due after more than one year		(100)	-	-
Provision for liabilities and charges		(390)	-	-
-----				
Net assets		10,141	7,638	7,659
=====				
Capital and reserves				
Called up share capital	4	747	523	523
Merger reserve	4	3,250	-	-
Capital redemption reserve	4	253	253	253
Profit and loss account	4	5,891	6,862	6,883
-----				
Total shareholders' funds		10,141	7,638	7,659
=====				

GROUP CASHFLOW STATEMENT

For the 6 months ended 31 December 2006

	Notes	Six months to 31 December 2006 £000's (unaudited)	Six months to 31 December 2005 £000's (unaudited)	18 months to 30 June 2006 £000's (audited)
-----				
Net cash outflow from operating activities	5	(1,268)	(116)	(465)
-----				
Returns on investments and servicing of finance				
Interest received		141	170	555
Interest paid		(26)	-	-
-----				
Net cash inflow from returns on investments and servicing of finance		115	170	555
Capital expenditure				
Purchase of tangible fixed assets		(42)	-	-
-----				
Net cash outflow for capital expenditure		(42)	-	-
Acquisitions				
Purchase of subsidiary undertakings	6	(1,222)	-	-
Net overdrafts acquired with subsidiary undertakings		(1,908)	-	-
-----				
Net cash outflow for acquisitions		(3,130)	-	-
-----				
Net cash (outflow) / inflow before use of liquid resources		(4,325)	54	90
Management of liquid resources				
Decrease / (increase) in short-term deposits with bank		4,468	-	(119)

Net cash inflow / (outflow) from management of liquid resources	4,468	-	(119)
Increase / (decrease) in net cash	143	54	(29)
Reconciliation to net cash Cash and cash equivalents, beginning of period	7,669	7,608	7,579
Increase / (decrease) in net cash	143	54	(29)
Transfer (from) / to deposit	(4,468)	-	119
Cash and cash equivalents, end of period	3,344	7,662	7,669

#### NOTES TO THE ACCOUNTS:

##### 1. Accounting Policies

The interim financial statements have been prepared under the historical cost convention and in accordance with applicable UK Accounting Standards as amended by the adoption of Financial Reporting Standard 20 "Share Based Payments" (FRS 20).

The following paragraphs describe the principal policies, all of which have been applied consistently throughout the current and preceding periods, with the exception of new accounting policies adopted as a result of the acquisitions during the period.

##### Basis of consolidation

The Group accounts include the accounts of the Company and all of its subsidiary undertakings at any time during the financial period. The results of subsidiary undertakings and businesses acquired during the period are included from the date of acquisition. The results of subsidiary undertakings and businesses disposed of during the period are included to the date of their disposal.

##### Share based payments

FRS 20 "Share-based Payment" requires the recognition of share-based payments at fair value at the date of grant. The company 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.

##### Foreign currencies

Foreign currency transactions are converted at the rate of exchange ruling at the date of the transaction or translated at the period end rate in the case of transactions not then finalised. Monetary assets and liabilities denominated in foreign currencies at the year end are expressed in sterling at the rate of exchange ruling at that date. Currency adjustments are included in the profit

and loss account.

#### New accounting policies

##### Turnover

Turnover comprises the invoiced value of goods and services supplied by the company, except in respect of long-term contract activities where turnover represents the value of work carried out during the financial period on the basis of the percentage of the total work that has been completed. Turnover is stated exclusive of Value Added Tax and trade discounts.

##### Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, representing the excess of the fair value of the consideration given over the fair value of the net assets acquired, is capitalised and written off on a straight line basis over its useful economic life. In addition to systematic amortisation, the book value is written down to the recoverable amount when any impairment is identified.

Goodwill arising on acquisitions in the year ended 31 December 1997 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet.

##### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Plant and machinery - 5 to 20% straight line

##### Research and development

Research and development costs are written off in the period in which they are incurred.

##### Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding each period.

##### Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

#### Long-term contracts

The amount by which recorded turnover is in excess of payments on account and amount invoiced is included in amounts recoverable on contracts. Payments received in excess of recorded turnover are included in creditors as payments on account.

#### Warranties

The company offers standard warranty cover in respect of equipment defects. The warranty provision carried forward is based upon experience of actual warranty claims received during the previous 12 month period. Movements in the warranty provision are charged to material cost of sales.

#### Stocks and work in progress

Stocks and work in progress are valued at the lower cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads. Project stock work in progress represents projects where actual costs incurred on a particular project exceed the costs recognised in the profit and loss accounts in respect of this project. These costs are retained on the balance sheet until income associated with these costs is recognised as a sale, at which point they are transferred to the profit and loss account.

#### Employee retirement benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit or loss as incurred.

#### 2. Taxation

No tax charge arose during the period ended 31 December 2006 or comparative periods due to the utilisation of brought forward tax losses.

#### 3. (Loss) / earnings per share

	Six months to 31 December 2006	Six months to 31 December 2005	18 months to 30 June 2006
	£000's (unaudited)	£000's (unaudited)	£000's (audited)
(Loss) / profit after tax	(992)	12	95
	'000's	'000's	'000's
Weighted average number of shares	62,905,262	52,315,751	52,315,751
Share options in issue (1)	2,100,000	2,000,000	2,000,000
Basic (loss) / earnings per share	(1.58p)	0.14p	0.18p
Diluted (loss) / earnings per share (1)	(1.58p)	0.14p	0.17p

(1) The share options in issue of 2,100,000 at the end of the current period

have been treated as non-dilutive as a result of the loss for the period.

4. Reconciliation of movement in shareholder's funds

Total	Share Capital £'000 (unaudited)	Share Premium £'000s (unaudited)	Capital Redemption Reserve £'000s (unaudited)	Profit & Loss Account £'000s (unaudited)
At 1 January 2005 7,564 Profit for period 62	523	-	253	6,788
At 30 June 2005 7,626 Profit for period 12	523	-	253	6,850
At 31 December 2005 7,638 Profit for period 21	523	-	253	6,862
At 30 June 2006 7,659 Loss for period (992) Ordinary shares issued on acquisition 3,474	523	-	253	6,883
At 31 December 2006 10,141	747	3,250	253	5,891

5. Reconciliation of operating loss to net cash outflow from operating activities

	Six months to 31 December 2006 £000's (unaudited)	Six months to 31 December 2005 £000's (unaudited)	18 months to 30 June 2006 £'000's (audited)
Operating loss	(1,111)	(158)	(417)
Depreciation charge	32	-	-
Amortisation of goodwill	74	-	-
Decrease in stocks	19	-	-
Increase in debtors	(1,068)	(4)	(448)
Increase in creditors	735	46	400
Increase in provision for liabilities and charges	51	-	-
Net cash outflow from operating activities	(1,268)	(116)	(465)

#### 6. Acquisition of Inov8 Technologies Limited and Moving Sun Limited

On 5 October 2006 Mid-States PLC completed the acquisition of the whole of the share capital of Inov8 Technologies Limited and Moving Sun Limited. Inov8 Technologies Limited is a global leader in fuel system testing technology. Moving Sun Limited holds the various intellectual property rights associated with Inov8 Technologies operations.

As consideration for the acquisition, Mid-States PLC issued and allotted 22,410,361 ordinary shares to the sellers, representing 29.99% of the issued share capital of the enlarged Group.

Costs incurred with the acquisition, as at 31 December 2006, have been capitalised as part of the cost of the acquisitions, and amounted to £1,248,000.

#### 7. Financial Information

The financial information for the six months ended 31 December 2006 and 31 December 2005 are unaudited and do not constitute accounts within the meaning of section 240 of the Companies Act 1985.

The financial figures for the eighteen months ended 30 June 2006 have been extracted from the statutory accounts, which have been reported on by the group's auditors, and been delivered to the Registrar of Companies. The auditors' report was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

Copies of this announcement can be obtained from the Company's offices at Masters House, 107 Hammersmith Road, London, W14 0QH.

#### INDEPENDENT REVIEW REPORT TO MID-STATES PLC

##### Introduction

We have been instructed by the company to review the financial information set out on pages 4 to 10. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. This report is made solely to the company having regard to guidance contained in Bulletin 1999/4

'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

#### Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules. The directors are also responsible for ensuring that the accounting policies and presentation applied to the interim figures are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable to such accounts.

#### Review work performed

We conducted our review having regard to guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

#### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2006.

RSM Robson Rhodes LLP  
Chartered Accountants  
London, England

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The company news service from the London Stock Exchange

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