

Chairman and Managing Director's Statement

Introduction

Mid-States PLC specialises in air disinfection technology and products, which are sold through Mid-States' subsidiary company Aerte (formerly named Inov8 Science). The AD products disinfect the air and surfaces of bacteria and viruses, eliminating airborne infections in enclosed spaces using hydroxyl radicals.

During the year ended 30 June 2011, the Company continued to focus on, and invest in, developing its flagship air disinfection product, "the AD", through expanding the network of country specific distributors with whom the Company works, and by producing the next generation of ADs to meet the requirements of different markets and customers. The numbers of distributors and territories continued to grow and the Company established a distribution presence in 37 countries. Since the year end, the Company has raised £1.7 million (net of expenses) through a Placing subject to shareholder approval on 15 November. The new funds will support the sale of the new range of ADs and further product development.

Product development

Until now, the Company has had a single version of its AD product for all markets. In response to customer requirements, the portfolio now includes two new models of the AD, based on the same science and technology. One, the "AD 2.0", is specifically designed for commercial and professional use. The other, "Klean", is designed for small commercial and domestic use. A miniaturised AD product is also in the process of being finalised.

The new products have already attracted significant attention from customers as they achieve the same effective results but are now:

- substantially cheaper and smaller than the existing AD;
- wholly redesigned with both significant practical and aesthetic improvements; and
- offering the choice of two consumable cartridges with the introduction of H₂O₂ as an alternative to d-limonene to produce the key hydroxyl radicals.

Strategy

The new AD 2.0 and Klean products are launching this month. Manufacturing is being outsourced as part of the process to improve functionality whilst substantially reducing the prices at which the Group is able to sell its products. The Group's UK manufacturing and warehouse facility has now closed.

The Company believes that the new products will expand the potential marketplace and accelerate its ability to sell into new markets. The combination of the functionality and design of the new products and their price points compared to the existing product is expected to accelerate take up rates and sales volumes. To support this objective, the Company will focus on bulk device orders and increasing sales of consumable cartridges.

To reflect these developments, the Company's new products will be sold under a new and more internationally recognisable brand entitled "Aerte". Pursuant to the authorisation under the Company's Articles of Association, the Board intends to change the name of the Company from Mid-States PLC to Aerte Group PLC on 15 November 2011.

The Company raised £1.7 million (net of expenses) through a share placing to be approved at a general meeting on 15 November 2011. The funds raised from the Placing will be used for the Company's transition to, and the commercial launch of, the new products. They will also assist the Company to enter new market sectors and territories in which it intends to seek significant distributors with the aim of achieving substantial increases in device sales and, subsequently, consumable cartridge sales.

The successful engagement of new distributors and entry into new markets will require continued investment by the Group in sales and marketing, product development and working capital.

Investment will also be continued to finalise the miniaturised AD product and complete its commercialisation prior to its launch into the retail market with a suitable commercial partner.

Results for the Financial Year Ended 30 June 2011

The Company received orders totalling 3,078 ADs for the year ended 30 June 2011, twice the number of orders reported in the previous year (2010: 1,564 ADs).

Revenues for the year ended 30 June 2011 are £425,000 (2010: £311,000), reflecting the increasing demand for the Company's products as the number of devices despatched increased from 1,080 to 1,760 ADs.

The loss for the year after tax was £2.5 million (2010: £2.3 million).

At 30 June 2011 the cash at bank was £1.3 million (2010: £3.8 million), and shareholders' funds were £2.8 million (2009: £5.2 million).

The Directors do not recommend payment of a dividend for the year ended 30 June 2011 (2010: £nil). The Financial Review provides further details of the results for the year.

Current trading and prospects

The Company recently announced that it has agreed the principal terms of a proposed distribution agreement with a Chinese company operating in the high technology sector and a member of a group of companies with combined annual sales of over £900 million. This includes minimum annual sales targets for the new product range with volumes of 75,000 devices in the first year, beginning from 1 February 2012.

The Company is also leveraging its existing sales and distribution network. Discussions have commenced in other territories with the aim of ensuring that the Company secures a suitable distributor for the new products. In 2012, the Company also intends to target new markets such as North and South America.

It is likely that sales from the new products will not commence in earnest before the middle of the third quarter of the financial year to 30 June 2012 once the distributors have been able to launch the new products and secure sales in their territories. Nevertheless, once the new products are fully launched, the Company expects sales volumes to be significantly greater than the sales volume for the existing AD device as indicated by the proposed sales volumes in China.

Sales of the existing AD have declined whilst the market awaits the launch of the new products and the Company has focussed on delivering the orders outstanding at 30 June 2011 and eliminating stocks.

The development of the miniaturised AD for use in the domestic home is progressing well and this work has been critical to the development of the new AD 2.0 and Klean products being launched. The Company continues to hold discussions with an industry leader as a potential commercial partner for this miniaturised AD product.

Commercial interest in the Company's products is building significantly and the introduction of the additional product (Klean) has increased the markets available and the overall size of the opportunity.

John Bateson, Chairman

Javier Segura, Managing Director

10 November, 2011

Financial Review

The following review explains the financial performance for the year ended 30 June 2011.

Revenue

Revenue for the year totalled £425,000 (2010: £311,000) and this was all attributable to the Air Disinfection business.

Operating loss

The operating loss for continuing operations before tax was £2.7 million (2010: £2.4 million loss). Operating costs for 2011 included amortisation of intangible assets £118,000 (2010: £118,000). The overall performance in the year reflects the continued investment in establishing the AD in new markets.

Loss for the year

The loss for the year after tax was £2.5 million (2010: £2.3 million loss).

Taxation

As a result of brought forward losses and the operating loss in the year the Group's tax charge for 2011 was £nil (2010: £nil), however there is a deferred tax credit of £34,000 for 2011 (2010: £34,000 credit). R&D tax credit was received during the year ended 30 June 2011 of £165,000 (2010: £nil).

Cash flow and net cash

The total cash outflow for the year ended 30 June 2011 was £2.6 million (2010: £1.6 million inflow) and included in this figure was the proceeds from a share issue of nil (2010: £3.9 million). The net cash used in operating activities for the year was £2.6 million (2010: £2.2 million).

The Group's cash balances were £1.3 million at 30 June 2011 (2010: £3.8 million).

Key performance indicators

The Group considers the key performance indicators as the growth of revenues for AD devices and consumables, and the net current assets and cash balances for the Air Disinfection business.

| | 2011 £'000 | 2010 £'000 |
|--------------------------|---------------|---------------|
| Air Disinfection Revenue | 425 | 311 |
| Net current assets | 1,184 | 3,523 |
| Cash at bank and in hand | 1,254 | 3,818 |

Consolidated statement of comprehensive income

Year ended 30 June 2011

| | Note | Year to 30 June 2011 £'000 | Year to 30 June 2010 £'000 |
|---|------|-------------------------------------|-------------------------------------|
| Continuing operations | | | |
| Revenue | 3 | 425 | 311 |
| Cost of sales | | (304) | (299) |
| Gross profit | | 121 | 12 |
| Distribution expenses | | (14) | (11) |
| Administrative expenses | | (2,844) | (2,391) |
| Results from operating activities | | (2,737) | (2,390) |
| Finance income | | 8 | 25 |
| Net finance income | | 8 | 25 |
| Loss before income tax | | (2,729) | (2,365) |
| Income tax credit | 5 | 199 | 34 |
| Loss from continuing operations | | (2,530) | (2,331) |
| Loss for the period | | (2,530) | (2,331) |
| Total comprehensive expense for the period | | (2,530) | (2,331) |
| Basic and diluted | | | |
| Loss per share | 4 | (0.97)p | (1.88)p |

Consolidated statement of financial position

At 30 June 2011

| | | 30 June 2011 £'000 | 30 June 2010 £'000 |
|---|------|--------------------------|--------------------------|
| | Note | | |
| Assets | | | |
| Property, plant and equipment | | 30 | 123 |
| Goodwill | | 1,115 | 1,115 |
| Other intangible assets | | 542 | 660 |
| Total non-current assets | | 1,687 | 1,898 |
| Inventories | 6 | 145 | 160 |
| Trade and other receivables | 7 | 180 | 69 |
| Other current assets | 8 | 113 | 97 |
| Cash and cash equivalents | | 1,254 | 3,818 |
| Total current assets | | 1,692 | 4,144 |
| Total assets | | 3,379 | 6,042 |
| Equity | | | |
| Share capital | 11 | 2,609 | 2,609 |
| Share premium | | 6,955 | 6,955 |
| Share based payments reserve | | 97 | 83 |
| Capital redemption reserve | | 253 | 253 |
| Merger reserve | | 3,250 | 3,250 |
| Retained earnings | | (10,440) | (7,910) |
| Total equity attributable to equity holders of the Company | | 2,724 | 5,240 |
| Liabilities | | | |
| Deferred tax liabilities | | 147 | 181 |
| Total non-current liabilities | | 147 | 181 |
| Trade and other payables | 9 | 170 | 211 |
| Other creditors and accruals | 9 | 221 | 212 |
| Deferred income | 9 | 34 | 9 |
| Short-term provisions | 10 | 83 | 189 |
| Total current liabilities | | 508 | 621 |
| Total liabilities | | 655 | 802 |
| Total equity and liabilities | | 3,379 | 6,042 |

Consolidated statement of changes in equity

At 30 June 2011

| | Share capital £'000 | Share premium £'000 | Share based payment reserve £'000 | Capital redemption reserve £'000 | Merger reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|------------------------|------------------------|--|---|----------------------------|-------------------------------|----------------|
| 1 July 2010 | 2,609 | 6,955 | 83 | 253 | 3,250 | (7,910) | 5,240 |
| Share based payment transactions | - | - | 14 | - | - | - | 14 |
| Transactions with owners | - | - | 14 | - | - | - | 14 |
| Loss for the year and total comprehensive loss | - | - | - | - | - | (2,530) | (2,530) |
| 30 June 2011 | 2,609 | 6,955 | 97 | 253 | 3,250 | (10,440) | 2,724 |
| 1 July 2009 | 1,161 | 4,543 | 67 | 253 | 3,250 | (5,579) | 3,695 |
| Issue of new shares | 1,448 | 2,412 | - | - | - | - | 3,860 |
| Share-based payment transactions | - | - | 16 | - | - | - | 16 |
| Transactions with owners | 1,448 | 2,412 | 16 | - | - | - | 3,876 |
| Loss for the year and total comprehensive loss | - | - | - | - | - | (2,331) | (2,331) |
| 30 June 2010 | 2,609 | 6,955 | 83 | 253 | 3,250 | (7,910) | 5,240 |

Consolidated statement of cash flows

Year ended 30 June 2011

| | Year to 30 June 2011 £'000 | Year to 30 June 2010 £'000 |
|---|-------------------------------------|-------------------------------------|
| Cash flows from operating activities | | |
| Loss for the period | (2,530) | (2,331) |
| Adjustments for: | | |
| Depreciation | 62 | 80 |
| Amortisation of intangible assets | 118 | 118 |
| Share based payments | 14 | 16 |
| Taxation | (199) | - |
| Loss on disposal of fixed assets | 35 | - |
| | (2,500) | (2,117) |
| Change in inventories | 15 | 120 |
| Change in trade and other receivables | (127) | (100) |
| Change in trade and other payables | (32) | (182) |
| Change in provisions | (106) | 105 |
| Change in deferred income | 25 | (7) |
| | (2,725) | (2,181) |
| Interest income | (8) | (25) |
| Income tax received | 165 | - |
| Net cash used in operating activities | (2,568) | (2,206) |
| Cash flows from investing activities | | |
| Interest received | 8 | 25 |
| Purchase of property, plant and equipment | (4) | (91) |
| Net cash (used in)/from investing activities | 4 | (66) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | - | 3,860 |
| Net cash from financing activities | - | 3,860 |
| Net (decrease)/increase in cash and cash | (2,564) | 1,588 |
| Cash and cash equivalents at beginning of | 3,818 | 2,230 |
| Cash and cash equivalents at end of the period | 1,254 | 3,818 |

Notes to the consolidated financial statements

For the year ended 30 June 2011

1. NATURE OF OPERATIONS AND GENERAL INFORMATION

Mid-States PLC and subsidiaries' ('the Group') principal activities are in the area of environmental technology, focusing in particular on cleaner air through its innovative air disinfection products.

Mid-States PLC consolidated financial statements are presented in Pounds Sterling (£), which is also the functional currency of the parent company.

2. ACCOUNTING POLICIES

Basis of preparation

The financial information contained within this preliminary report has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) as adopted by the EU and applying at 30 June 2011. The information in this preliminary statement has been extracted from the unaudited financial statements for the year ended 30 June 2011 and as such, does not contain all the information required to be disclosed in the financial statements prepared in accordance with the International Financial Reporting Standards.

The figures for the year ended 30 June 2011 and 2010 do not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006.

3. SEGMENTAL ANALYSIS

Mid-States PLC is an environmental technology group. The Group has one operating segment under IFRS 8 which is air disinfection.

Management information is provided to the chief operating decision maker on a consolidated basis prior to any adjustments for Share Based payment charges £14,000 (2010: £16,300).

Revenue and non-current assets originate in the United Kingdom.

The geographical analysis of total revenue by destination is as follows:

| | 30 June 2011 £'000 | 30 June 2010 £'000 |
|------------------------------|-----------------------|-----------------------|
| United Kingdom | 22 | 33 |
| Spain | 71 | 120 |
| India | 143 | 10 |
| Rest of World | 189 | 148 |
| Continuing operations | 425 | 311 |

Two distributors represent 50% (2010: 60%) of total revenue. We expect reliance on these two distributors to reduce as sales are made to new distributors.

4. LOSS PER SHARE

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

| Loss | 30 June 2011 | 30 June 2010 |
|---|---------------------|---------------------|
| | £'000 | £'000 |
| Loss for the purpose of basic and diluted earnings per share being the net loss attributable to equity holders of the parent: | (2,530) | (2,331) |
| | | |
| Number of shares | 30 June 2011 | 30 June 2010 |
| | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | 260,903,839 | 123,621,062 |
| | | |
| Loss per share | 30 June 2011 | 30 June 2010 |
| | £'000 | £'000 |
| Basic loss per share | (0.97)p | (1.88)p |
| Diluted loss per share | (0.97)p | (1.88)p |

5. TAX ON LOSS ON ORDINARY ACTIVITIES

| | 30 June 2011 | 30 June 2010 |
|---|---------------------|---------------------|
| | £'000 | £'000 |
| Current tax – adjustment for R&D tax credits receivable in respect of prior periods | (165) | - |
| Deferred tax | (34) | (34) |
| Tax on loss on ordinary activities | (199) | (34) |

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 on ordinary activities before tax on continuing operations | (2,530) | (2,365) |
| Tax on loss on ordinary activities at 27.5% (2010: 28%) | (696) | (662) |
| Factors affecting charge for the year: | | |
| - Non deductible expenses | 15 | 15 |
| - Deferred tax unprovided | 647 | 613 |
| - adjustments in respect of prior periods | (165) | - |
| Tax charge in the year | (199) | (34) |

The Group has tax losses arising in the UK of £8.4 million (2010: £6.6 million) that are available indefinitely for offset against future taxable profits in those companies in which the losses arose.

6. INVENTORIES

| | 2011 £'000 | 2010 £'000 |
|--|---------------|---------------|
| Raw Materials | 75 | 126 |
| Provision for obsolete / slow moving stock | - | (69) |
| Finished goods | 70 | 103 |
| | 145 | 160 |

7. TRADE RECEIVABLES

| | 2011 £'000 | 2010 £'000 |
|--|---------------|---------------|
| Current: | | |
| Trade receivables | 230 | 70 |
| Less provision for impairment of trade receivables | (50) | (1) |
| Net trade receivables | 180 | 69 |

There is no material difference between the carrying amount and the fair value of the trade receivables.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies.

| | 2011 £'000 | 2010 £'000 |
|----------|---------------|---------------|
| Sterling | 99 | 30 |
| Euros | 81 | 39 |
| | 180 | 69 |

8. OTHER CURRENT ASSETS

| | 2011 £'000 | 2010 £'000 |
|--|---------------|---------------|
| Value added tax recoverable | 14 | 38 |
| Prepayments, accrued income and other current assets | 99 | 59 |
| | 113 | 97 |

9. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

| | 2011 | 2010 |
|---------------------------------|------------|------------|
| | £'000 | £'000 |
| Trade payables | 170 | 211 |
| Social security and other taxes | 44 | 47 |
| Pension creditors | 4 | 3 |
| Other payables and accruals | 173 | 162 |
| Deferred income | 34 | 9 |
| | 425 | 432 |

10. PROVISIONS

Warranty provision

| | 2011 | 2010 |
|------------------------------|-----------|------------|
| | £'000 | £'000 |
| At 1 July 2010 | 189 | 84 |
| Provided for during the year | 30 | 105 |
| Utilised in the year | (136) | - |
| At 30 June 2011 | 83 | 189 |

Analysis of total provision

| | 2011 | 2010 |
|------------------------|-----------|------------|
| | £'000 | £'000 |
| Current | 83 | 189 |
| At 30 June 2011 | 83 | 189 |

The AD is still a relatively new product and as a consequence the warranty provision assumes warranty costs and distribution expenses will be incurred within the next year. However, this is reviewed on a regular basis as more post sales data is obtained.

11. CALLED UP SHARE CAPITAL

| | Number of Ordinary shares of £0.01 each | Allotted called up and fully paid £'000 |
|------------------------|---|---|
| At 1 July 2010 | 260,903,839 | 2,609 |
| At 30 June 2011 | 260,903,839 | 2,609 |

12. POST BALANCE SHEET EVENTS

On 25 October 2011 the Group announced that, subject to Shareholder approval, it had raised £1,834,036 before expenses to fund the Company's on-going development and roll-out of new products, via the proposed issue of 122,269,051 new Ordinary Shares at a price of 1.50 pence per share to new and existing investors.

The Placing is subject to approval by shareholders at a general meeting on 15 November 2011.

Pursuant to the authorisation under the Company's Articles of Association, the Board intends to change the name of the company from Mid-States PLC to Aerte Group PLC on 15 November 2011.

13. ANNUAL REPORT

The financial information set out in the announcement does not constitute the company's statutory accounts for the years ended 30 June 2011 or 2010. The financial information for the year ended 30 June 2010 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts. Their report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The statutory accounts for the year ended 30 June 2011 have been finalised on the basis of the financial information presented by the directors in this preliminary announcement. The auditors have yet to report on the statutory accounts for the year ended 30 June 2011.

Once approved, copies of the Annual Report and accounts for the year ended 30 June 2011 will be posted to shareholders and will be available on the Company's website (www.aertegroup.com).

This information is provided by RNS. The company news service from the London Stock Exchange

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