



Annual Report and Financial Statements 2010

Contents

Officers and Professional Advisers	2
Chairman's and Managing Director's Statement	3
Financial Review	5
Directors' Report	6
Corporate Governance	9
Directors' Remuneration Report	11
Report of the Independent Auditors	13
Consolidated Statement of Comprehensive Income	14
Consolidated Statement of Financial Position	15
Consolidated Statement of Changes in Equity	16
Consolidated Statement of Cash Flows	17
Notes to the Consolidated Financial Statements	18
Company Independent Auditors' Report	36
Company Balance Sheet – UK GAAP	37
Notes to the Company Accounts	38
Profiles of Directors	41
Annual General Meeting	42
Notice of Meeting	43

2 Officers and Professional Advisers

Directors

John Bateson – *Chairman*
Javier Segura – *Managing Director*
Andrew Tonks – *Finance Director*
Glenn Cooper – *Non-executive Director*
Esteban Monegal – *Non-executive Director*

Secretary

Tony Hunter

Registered Office

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Company Number

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Nominated Adviser and Broker

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London
EC2M 6XB

Bankers

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Glasgow
G1 2RQ

Legal Advisers

Hogan Lovells LLP
Atlantic House
Holborn Viaduct
London
EC1A 2FG

Auditors

Grant Thornton UK LLP
Byron House
Cambridge Business Park
Cambridge
CB4 0WZ

Registrars

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 7NH
Tel: +44 (0)8707 020003

Introduction

Mid-States PLC specialises in air disinfection technology and products, and its flagship product is the AD, an independently proven air disinfection unit, which is sold through Mid-States' subsidiary company Inov8 Science. The AD disinfects the air and surfaces of bacteria and viruses, eliminating airborne infections in enclosed spaces using hydroxyl radicals.

In June 2010, the Company raised £3.8 million (net of expenses) through a share placing, to support its strategy for realising the commercial potential of the AD. The AD provides a unique solution for disinfecting the air of harmful bacteria and viruses, and the commercial potential for creating disinfected air and surfaces in enclosed spaces such as hospitals, care homes, offices, dental surgeries and ambulances, is believed to be substantial.

The competitive strengths of the AD are its:

- bactericidal, virucidal, fungicidal and sporicidal (airborne and surface-borne) efficacy.
- proven efficacy against several antibiotic resistant microorganisms.
- proven efficacy against norovirus.
- fast acting on continuously introduced pathogens; non-reliant on air circulation within the device.
- deodorant (as it attacks bacterial activities generating odours).
- safe operation 24 hours a day in areas occupied by people.

The Company is also developing variants of the AD, including a miniature version specifically designed for the retail market.

Strategy

The AD is playing an important role in the ongoing fight against viral and bacterial pathogens in UK hospitals. The successful reduction in the number of virus outbreaks and ward closures achieved at hospitals such as Hereford Hospitals Trust after installation of AD units, and the selection of the AD as one of the winners of the NHS Smart Solutions Programme 2009, is further testament to the AD's efficacy and confirmation of its success across the health market.

Inov8 Science was present at several prestigious exhibitions and conferences, such as the HPA (Health Protection Agency) 2010 and International Conference of the Hospital Infection Society (HIS 2010). Two scientific papers were presented that again show the efficacy of the AD and add to the extensive tangible evidence of the benefits in support of using the AD.

The strategy of the Company is to achieve further penetration of the UK hospital market and of hospital markets in other selected geographies, including India, the Middle East and Europe; and to penetrate different market segments in multiple countries. In June 2010 the Company raised approximately £3.8m (net of expenses) through a share placing, in order to fund the Company in implementing its strategy, including additional sales and marketing resources.

Whilst good progress has been made, we continue to invest in the further resources required for additional sales and marketing to support penetration of, and entry into new market segments and territories. Key segments the Company plans to cover include:

- healthcare, such as hospitals, care homes, dental surgeries, pharmacies and ambulances;
- hospitality, such as restaurants, hotels and passenger ships;
- offices, to reduce absences due to sickness.

The focus will be on territories in developed and emerging markets which the Board considers have high potential growth rates for AD sales, including Europe, Middle East, India and South America. To support this strategy the Company is currently seeking to appoint an experienced Sales and Marketing Director.

A core part of our strategy is selecting the right distributors to enable us to penetrate our different target geographies and market sectors. The Company currently works with key distributors in the UK, Spain, the Middle East and India, and is in discussions with a number of potential new distributors.

We are pleased at the good progress being made in India. During August our distributor, Innova Technology Solutions, launched the AD to the hospital market, which launch was attended by a number of leading hospital doctors.

We have recently entered the shipping market in the UK by signing an agreement with Hutton's, a leading supplier to ships in the UK. Entry has also been made into the dental sector in the UK and other European countries including Poland and Slovakia.

Product Development

Further resources will be also be utilised for continued product development to meet market requirements. This is planned to include the development of a miniaturised AD specifically designed for the retail market and we are pleased with the progress made on this project.

There is also the potential for the existing products to be developed further. Current product development activity is strongly focussed on the AD and ensuring that new variants are available to meet the specific requirements of both existing customers and the new markets targeted. In the short term, opportunities exist for different versions of the AD and, as a consequence, these will continue to be the Company's product development focus.

Nevertheless, the Company intends to broaden its product offering to customers through strategic partnerships including offering air testing services to all sectors, including healthcare, and complimentary products such as disinfectant hand gels and wipes.

Results for the Financial Year Ended 30 June 2010

The order intake for the year was 1,564 ADs. The fourth quarter order intake of 477 confirms order intake has increased each quarter for the last financial year. The 885 order intake in the second half of the year was also 30% higher than the 679 achieved in the first half year.

Revenue for the financial year to 30 June 2010 was £311,000 (2009: £336,000). The loss for the year after tax was £2.3 million (2009: loss from continuing operations £2.4 million).

At 30 June 2010 the cash at bank was £3.8 million (£2009: £2.2 million), and shareholders' funds were £5.2 million (2009: £3.7 million).

The Directors do not recommend payment of a dividend for the year ended 30 June 2010 (2009 £nil).

The Financial Review provides further details of the results for the year.

Current trading and prospects


During the last year the Company has been working to improve revenues in other geographies and market segments which has been encouraging, and we have focused on selecting the right distributor in order to launch and establish the AD in each particular geography or segment.

The Board is pleased to announce that in the first quarter of the financial year ended 30 June 2011 orders for 541 AD units were received against the orders for 301 AD units received in the first quarter of the last financial year. This is the fifth consecutive quarter of growth in order intake.

The Board is encouraged by the progress that has been made, and we have a clear strategy to exploit the undoubted potential of the AD.



John Bateson
Chairman



Javier Segura
Managing Director

The following review explains the financial performance for the year ended 30 June 2010.

The results for the year to 30 June 2010 are prepared in accordance with the accounting policies discussed in the full statutory accounts on pages 18 to 23.

Revenue

Revenue for the year totalled £311,000 (2009: £336,000) and this was all attributable to the Air Disinfection business.

Operating loss

The operating loss for continuing operations before tax was £2.4 million (2009: £2.4 million loss). Operating costs for 2010 included amortisation of intangible assets £118,000 (2009: £118,000) and 2009 included reorganisation costs of £307,000. 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 £2.3 million (2009: £1.6 million loss, including a profit on discontinued operations of £789,000).

Taxation

As a result of brought forward losses and the operating loss in the year the Group's tax charge for 2010 was £nil (2009: £nil), however there is a deferred tax credit of £34,000 for 2010 (2009: £33,000 credit). No R&D tax credit was received during the year ended 30 June 2010 (2009: £nil), however a claim was made and £66,000 was received in August 2010, which will be accounted for in the period ended 30 June 2011.

Cash flow and net cash

The total cash inflow for the year ended 30 June 2010 was £1.6 million (2009: £1.7 million inflow) and included in this figure was the proceeds from share issues of £3.8 million (2009: £4.0 million). The net cash used in operating activities for the year was £2.2 million (2009: £2.3 million).

The Group's cash balances were £3.8 million at 30 June 2010 (2008: £2.2 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.

	2010	2009
	£'000	£'000
Air Disinfection revenue	311	336
Net current assets	3,523	1,888
Cash at bank and in hand	3,818	2,230

6 Directors' Report

The Directors present their annual report and the audited financial statements of the Company for the year ended 30 June 2010.

Business review and principal activities

The principal activity of the Company is in the area of environmental technology, focusing in particular on disinfecting air and surfaces through its innovative technology.

As shown in the Group's consolidated statement of comprehensive income on page 14, the loss after tax was £2.3 million (2009: £1.6 million loss). Further details of the Group's business, its results for the year, key performance indicators and its future plans are presented in the Chairman's and Managing Director's Statement and the Financial Review on pages 3 to 5 which form part of the Directors' Report.

Principal risks and uncertainties

The AD is a relatively new product and therefore the Group is still establishing a foothold in its markets. Nevertheless, the AD is based on 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. Initial indications give encouragement that the AD can be an important part of infection control, initially in the UK, and thereafter in major markets around the globe.

Revenue during the year arose mainly in the UK, European Union, and the Middle East. As a consequence the Group was exposed to the movement in the Euro exchange rates on revenue generated in this currency. The Group 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 cash inflows. At present the Group, has no third party debt and therefore no interest rate expense exposure.

Results

Revenue for the year for continuing operations was £311,000 (2009: £336,000). The loss for the year before taxation was £2,331,000 (2009: £1,610,000 loss). At 30 June 2010, total equity was £5,240,000 (2009: £3,695,000).

Dividends

The Directors are not recommending payment of a dividend for the year ended 30 June 2010 (2009: £nil).

Placings of shares and exercise of options

On 12 May 2010, the Company announced the cash placing of 144,821,427 Ordinary Shares at 2.8 pence per share, raising approximately £4 million before expenses. The shares were issued and available to trade on the open market from 11 June 2010.

This increased the issued share capital to 260,903,839 shares of £0.01 per share. Further details can be found in note 20 to the consolidated financial statements.

Substantial shareholders

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

	Number of shares	% holding
Esmo Empresarial S.L.	74,493,463	28.55
Bottin (International) Investments Ltd	40,390,714	15.48
Gartmore Funds	21,428,571	8.21
Mrs Ann Macdonald	18,248,288	6.99
Williams de Broë Ltd	9,114,000	3.49
Oryx International Growth Fund	8,389,573	3.22

As part of the share placing completed in June 2010, Esmo Empresarial S.L. and Bottin (International) Investments Ltd subscribed for 41,100,000 and 22,285,714 new Ordinary Shares respectively at 2.8 pence per Placing Share.

Directors and their interests

The Directors who served during the year are detailed in the Directors' Remuneration Report on pages 11 and 12.

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.

Research and development

The Group's air disinfection research and development costs for the year were £324,000 (2009: £303,000).

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 other terms of each transaction, ensure that suppliers are made aware of the terms of payment, and abide the terms of payment. Trade payables of the Company at 30 June 2010 were equivalent to 42 (2009: 45) 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 6 to the financial statements on page 26.

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 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 informal meetings and training courses, so as to involve them in the success of the business and to reward their efforts accordingly.

Directors' responsibilities for the financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements for the Group accounts under International Financial Reporting Standards as adopted by the EU and elected to prepare the financial statements for the Company in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards for Group purposes and United Kingdom Accounting Standards for Company purposes have been followed subject to material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements 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

A resolution to reappoint Grant Thornton UK LLP as auditors will be proposed at the forthcoming Annual General Meeting.

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

A handwritten signature in blue ink, appearing to read 'Tony Hunter', written in a cursive style.

Tony Hunter
Company Secretary

19 October 2010

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE MATTERS

Compliance with the Combined Code

As an AIM quoted 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 its future success 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 reserved to the Board are considered. Matters reserved to the Board include the approval of strategy and budgets, of interim and final financial statements, of significant financial commitments including major contracts, and appointments to the Board and its committees. During the year, twelve meetings of the Board, two meetings of the Audit Committee, and two of the Remuneration Committee were held.

Directors have direct access to the Company's advisors and also the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed. 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 quoted company.

During the year, the Board comprised the Chairman, two non-executive Directors and two executive Directors. All of the non-executive Directors are considered to have been independent of management and free from material conflicts of judgement that would affect their roles as Directors, recognising that John Bateson was nominated by a significant shareholder in the Company; and Esteban Monegal's interest in a significant shareholder of the Company which nominated Javier Segura's appointment. The Board does not recognise a senior independent Director and believes this to be appropriate in view of the relatively small size of the Board.

Non-executive Directors are not appointed for specific terms and instead retire by rotation under the Company's Articles of Association. Their appointments are otherwise terminable, by all the other Directors, at will. The Board believes this provides sufficient flexibility.

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 enduring the year were John Bateson (Chairman), Glenn Cooper and Esteban Monegal. None of the Committee have any personal financial interest (other than as shareholders) in the Company, conflicts of interest arising from cross-directorships, or day-to-day involvement in running the business. No Director plays a part in any decision 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 members of the Audit Committee during the year were Glenn Cooper (Chairman), John Bateson and Esteban Monegal.

The Board has a Nominations Committee which is responsible for recommendations for the appointment of new Directors to the Board and its members during the year were Esteban Monegal (Chairman), John Bateson and Glenn Cooper.

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 trading updates where appropriate.

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. Significant identified risks are reviewed and considered by the Board or a Committee of the Board. The Board has considered it inappropriate to establish an internal audit function given the current size of the Group's operations.

10 Corporate Governance (continued)

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 9 to the financial statements. Non-audit fees, which include 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. Further details are given in the accounting policies note on page 19.

Procedures for developing policy and fixing remuneration

The Remuneration Committee consists of the non-executive Directors, and is chaired by John Bateson.

Policy on executive Directors' remuneration

The Group's policy is to attract, motivate and retain high calibre individuals and to reward them for enhancing shareholder value.

The implementation of this policy is achieved by:

- An annual review of the salaries for the executive Directors.
- Periodic review of other benefits such as the provision of company cars and medical insurance.
- Where considered appropriate, the participation in an annual bonus scheme based on the achievement of profit and individual performance targets.
- Where considered appropriate, the provision of share options.
- A contribution of the Company pension scheme or a personal pension scheme held by the relevant executive Director.

Service contracts

The service agreement with Andrew Tonks is terminable on not less than nine months notice in writing. The service agreement with Javier Segura is terminable on not less than three months notice in writing.

In addition to salary, Andrew Tonks is entitled to a car allowance, private medical cover and pension contributions.

The contracts of the non-executive Directors, including the Chairman's, are terminable on notice by either party. Their level of remuneration is determined by the Board with reference to the level of fees paid to non-executive Directors of similar companies.

Directors

The Directors who served throughout the year are detailed below:

John Bateson
Javier Segura
Andrew Tonks
Glenn Cooper
Eteban Monegal

In accordance with the Articles of Association, Andrew Tonks retires by rotation and is being proposed for re-appointment at the forthcoming Annual General Meeting. Biographical notes about the Directors are set out on page 41.

Directors' remuneration

Details of the Directors' remuneration can be found in note 7 to the consolidated financial statements and related party transactions are disclosed in note 26. All of the Directors were paid by Mid-States PLC.

12 Directors' Remuneration Report (continued)

Directors' interests

The Directors who held office at 30 June 2010, or who had held office during the year, 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 years old):

	Ordinary shares of 1p each at the date of this report	Ordinary shares of 1p each at 30 June 2010	Ordinary shares of 1p each at 30 June 2009
John Bateson	71,875	71,875	25,000
Andrew Tonks	26,250	26,250	26,250
Javier Segura	383,000	383,000	193,000
Glenn Cooper	200,400	200,400	200,400
Esteban Monegal	n/a	n/a	n/a

Esmo Empresarial S.L. and Bottin (International) Investments Ltd are substantial shareholders in the Company. They are represented on the Board by Esteban Monegal and John Bateson respectively. In addition Javier Segura was nominated to the Board by Esmo Empresarial S.L. Details of the current shareholdings held by Esmo Empresarial S.L. and Bottin (International) Investments Ltd are included on page 6.

Share options

The interests of the Directors and their families in the options over shares of the Company at 30 June 2010 were as follows:

		30 June 2010	1 July 2009	Date of grant	Date of expiry	Exercise price
Andrew Tonks	*	175,000	175,000	29 Mar 2007	29 Mar 2017	18.25p
Andrew Tonks	*	100,000	100,000	10 Apr 2008	10 Apr 2018	23.75p
Andrew Tonks	***	900,000	–	21 Jan 2010	21 Jan 2020	***
Andrew Tonks	**	225,000	–	21 Jan 2010	21 Jan 2020	5.75p
Javier Segura	***	1,320,000	–	21 Jan 2010	21 Jan 2020	***
Javier Segura	**	330,000	–	21 Jan 2010	21 Jan 2020	5.75p

* Granted under the 1999 Stock Option Plan. These options normally become exercisable in tranches of one third on each anniversary of the date of grant commencing on the first anniversary of the date of grant.

** Granted under the Unapproved Share Option Plan 2009. These options are not subject to performance conditions, vest only after three years (subject to the terms of the Plan) and are at an exercise price of 5.75 pence per share.

*** Granted under the Unapproved Share Option Plan 2009. These options are subject to the achievement of challenging performance conditions linked to the financial results of the Group over the next three years and, subject to these conditions, may vest over the next three years. Of this percentage, one third is at an exercise price of 5.75 pence per share. The exercise prices of the remaining two thirds are subject to increase based on a formula linked to increases in the Company's share price over the next two years. In no event is the exercise price to be less than 5.75 pence per share.

We have audited the group financial statements of Mid-States PLC for the year ended 30 June 2010 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 30 June 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Mid-States PLC for the year ended 30 June 2010.

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

Cambridge
19 October 2010

14 Consolidated Statement of Comprehensive Income

Year ended 30 June 2010

	Note	Year to 30 June 2010 £'000	Year to 30 June 2009 £'000
Continuing operations			
Revenue	5	311	336
Cost of sales		(299)	(296)
Gross profit		12	40
Distribution expenses		(11)	-
Administrative expenses		(2,391)	(2,449)
Results from operating activities	9	(2,390)	(2,409)
Finance income	8	25	10
Net finance income		25	10
Loss before income tax		(2,365)	(2,399)
Income tax	11	34	33
Loss from continuing operations		(2,331)	(2,366)
Discontinued operations			
Profit from discontinued operations (net of income tax)	25	-	789
Loss for the period		(2,331)	(1,577)
Total comprehensive expense for the period		(2,331)	(1,577)
Basic and diluted			
Loss per share (continuing operations)	10	(1.88)p	(2.53)p
Loss per share (total operations)	10	(1.88)p	(1.69)p

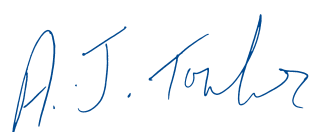
Consolidated Statement of Financial Position 15

At 30 June 2010

	Note	30 June 2010 £'000	30 June 2009 £'000
Assets			
Property, plant and equipment	13	123	129
Goodwill	12	1,115	1,115
Other intangible assets	12	660	778
Total non-current assets		1,898	2,022
Inventories	14	160	280
Trade and other receivables	15	69	14
Other current assets	16	97	51
Cash and cash equivalents		3,818	2,230
Total current assets		4,144	2,575
Total assets		6,042	4,597
Equity			
Share capital	20	2,609	1,161
Share premium		6,955	4,543
Share based payments reserve		83	67
Capital redemption reserve		253	253
Merger reserve		3,250	3,250
Retained earnings		(7,910)	(5,579)
Total equity attributable to equity holders of the Company		5,240	3,695
Total equity		5,240	3,695
Liabilities			
Deferred tax liabilities	11	181	215
Total non-current liabilities		181	215
Trade payables	17	211	124
Other payables and accruals	17	212	463
Deferred income	17	9	16
Short-term provisions	18	189	84
Total current liabilities		621	687
Total liabilities		802	902
Total equity and liabilities		6,042	4,597

These financial statements were approved by the Board of Directors on 19 October 2010.

Signed on behalf of the Board of Directors



Andrew Tonks
Finance Director

16 Consolidated Statement of Changes in Equity

At 30 June 2010

	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 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
1 July 2008	787	906	51	253	3,250	(4,002)	1,245
Issue of new shares	374	3,637	–	–	–	–	4,011
Share-based payment transactions	–	–	16	–	–	–	16
Transactions with owners	374	3,637	16	–	–	–	4,027
Loss for the year and total comprehensive loss	–	–	–	–	–	(1,577)	(1,577)
30 June 2009	1,161	4,543	67	253	3,250	(5,579)	3,695

Consolidated Statement of Cash Flows 17

Year ended 30 June 2010

	Year to 30 June 2010 £'000	Year to 30 June 2009 £'000
Cash flows from operating activities		
Loss for the period	(2,331)	(2,366)
Adjustments for:		
Depreciation	80	21
Amortisation of intangible assets	118	118
Share based payments	16	16
	(2,117)	(2,211)
Change in inventories	120	(278)
Change in trade and other receivables	(100)	297
Change in trade and other payables	(182)	(59)
Change in provisions	105	–
Change in deferred income	(7)	(33)
	(2,181)	(2,284)
Interest income	(25)	(10)
Net cash (used in) operating activities	(2,206)	(2,294)
Cash flows from investing activities		
Interest received	25	10
Purchase of property, plant and equipment	(91)	(2)
Net cash (used in)/from investing activities	(66)	8
Cash flows from financing activities		
Proceeds from issue of share capital	3,860	4,011
Net cash from financing activities	3,860	4,011
Net increase in cash and cash equivalents	1,588	1,725
Cash and cash equivalents at beginning of period	2,230	505
Cash and cash equivalents at end of the period	3,818	2,230

18 Notes to the Consolidated Financial Statements

For the year ended 30 June 2010

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 disinfecting air and surfaces through its innovative air disinfection products.

Mid-States PLC is the Group's ultimate parent company. It is incorporated and domiciled in Great Britain. The address of Mid-States PLC's registered office is 107 Hammersmith Road, London, W14 0QH, United Kingdom. Mid-States PLC's shares are listed on the AIM Market of the London Stock Exchange.

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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and International Financial Reporting Interpretation Committee (IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, and the accounting policies set out below, which have been consistently applied to all periods presented unless otherwise indicated.

The adoption of IAS1 (Revised 2007) does not effect the financial position or the loss of the Group, but gives rise to additional disclosures. IAS1 Presentation of Financial Statements (Revised 2007) requires the presentation of a comparative consolidated statement of financial position as at the beginning of the prior comparative period. Management considers that this is not necessary because the position at 30 June 2008 is the same as previously published.

The adoption of IFRS 8 has not changed the segments which are disclosed. Under IFRS 8 the accounting policy for identifying segments is based on the internal management reporting information that is regularly reviewed by the chief operating decision maker.

In preparing these financial statements the Group has applied the IFRS adopted by the European Union and the IFRIC interpretations where the effective date is relevant to the financial year commencing on 1 July 2009 or ending 30 June 2010. The Company has not applied the following pronouncements for which adoption is not mandatory for the year ending 30 June 2010 or which have not yet been endorsed by the EU:

The adoption of these will not have a significant effect on the financial statements.

New standards and interpretations currently in issue but not effective for accounting periods commencing on 1 July 2009 are:

- IFRS 9 Financial Instruments (effective 1 January 2013)
- IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)
- Group Cash-settled Share-based Payment Transactions – Amendment to IFRS 2 (effective 1 January 2010)
- Improvements to IFRSs 2009 (various effective dates, earliest of which is 1 July 2009, but mostly 2010)
- Amendment to IFRS 1 Additional Exemptions for First-time Adopters (effective 1 January 2010)
- Amendment to IAS 32 Classification of Rights Issues (effective 1 February 2010)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)
- Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14 (effective 1 January 2011)
- Improvements to IFRS issued May 2010 (some changes effective 1 July 2010, others effective 1 January 2011)

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

The financial statements of the Company as an entity continue to be prepared under United Kingdom Generally Accepted Accounting Practice and are presented separately from the consolidated financial statements (pages 37 to 40).

2 ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial information incorporates the financial statements of the Company and all its subsidiary undertakings made up to 30 June each year. Subsidiaries are entities where the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date on which control is transferred to or from the Group, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used into line with those used by the Group. The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, equity instruments issued by the Group, in exchange for control of the acquirer. The identifiable assets, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the fair value of the consideration for the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated statement of comprehensive income.

All inter-company transactions and balances are eliminated on consolidation. Profits and losses resulting from inter-company transactions that are recognised in assets, such as inventory, are eliminated in full. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Going concern

These financial statements have been drawn up on a going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future.

The directors have reviewed detailed cash flow projections for the period to 31 December 2012 which demonstrate that the Group's cash resources are sufficient to enable it to continue to trade and meet its liabilities as they fall due. The key assumptions underpinning the cash flow forecasts are; steady growth in the market for its AD products and the recent injection of further financial support from within its existing shareholder base.

In forming their opinion, the Directors have taken into account that over the last 12 months, the Group has raised £4 million (before expenses) through a private placement involving a number of its principal shareholders.

After making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the Group and the company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Foreign currencies

For the purpose of the consolidated financial statements, the results and financial position are expressed in sterling, which is the functional currency of the parent company and the subsidiaries, and the presentational currency for the consolidated financial statements. Transactions in foreign currencies, which are those other than the functional currency of an entity, are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the consolidated statement of financial position date. All unhedged exchange differences are recognised in the consolidated statement of comprehensive income for the period and classified as administrative expenses.

Revenue

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimate on historical results, taking into consideration the type of transaction and the specifics of each arrangement.

Sales of goods are recognised when goods are delivered and title has passed. Other revenues are recorded as earned or as the services are performed after provision for estimated customer credits.

2 ACCOUNTING POLICIES (continued)

Finance revenue

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Profit or loss from discontinued operations

A discontinued operation is a component of the entity that either has been disposed of, or classified as held for sale and represents a separate major line of business or geographical area of operations;

- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations;
- is a subsidiary acquired exclusively with a view for sale.

Profit or loss from discontinued operations, including prior year components of profit or loss, are presented in a single amount in the consolidated statement of comprehensive income. The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date for the latest period presented.

Intangible assets

Goodwill

Goodwill arising on acquisition is initially measured at cost, being the excess of the fair value of the consideration for the acquisition over the Group's interest in the net fair value of the acquired entity's identifiable assets and liabilities at the date of acquisition. Goodwill is not amortised, but reviewed for impairment annually, any impairment is recognised immediately in the consolidated statement of comprehensive income and is not subsequently reversed.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

On disposal of a subsidiary or cash generating unit the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Internally generated intangible assets

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge is recognised in the consolidated statement of comprehensive income as an expense in the period in which it is incurred.

Expenditure on development activities where research findings are applied to a plan of design for the production of a new or substantially improved products are capitalised once it can be demonstrated that the product or process is clearly identifiable, technically and commercially feasible, will generate future economic benefits and the Group has sufficient resources and the intention to complete development so that the product can be brought to market. Expenditure capitalised is stated as the cost of materials, direct labour and an appropriate proportion of overheads less accumulated amortisation.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives. The qualifying proportion of costs in relation to the development of new products has been capitalised as an internally generated intangible asset and is being amortised on a straight line basis over its useful economic life. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Capitalised development costs are amortised over 5 years, this charge is included in administrative costs in the consolidated statement of comprehensive income.

Intellectual property

The Group has intellectual property relating to its air disinfection technology which is amortised over 10 years.

Impairment of tangible and intangible assets excluding goodwill

At the end of each financial year, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

2 ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets excluding goodwill (continued)

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any recognised impairment loss. Historical cost comprises the purchase price and costs directly incurred in bringing the asset into use. The assets' residual values and useful lives are reviewed annually and adjusted if appropriate, at each financial year end.

Depreciation is charged on a straight-line basis on the original costs after deduction of any estimated residual value. The principal annual rates are:

Plant, equipment and vehicles	between 10% and 20%
Computer assets	33%

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, on a first-in, first-out basis, and direct labour, plus attributable production overheads based on a normal level of activity. Net realisable value is based on estimated selling prices less anticipated costs of disposal. Provision is made for any slow moving and obsolete inventory.

Financial assets and liabilities

Financial assets

Non-derivative financial assets are classified according to the purpose for which the asset was acquired. The Group's financial assets are classified as loans and receivables and comprise:

- *'Trade and other receivables'* – these are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides goods directly to a debtor, or advances in money, with no intention of trading the loan or receivable. Subsequent to initial recognition loans and receivables are included in the consolidated statement of financial position at amortised cost using the effective interest method less any amounts written off to reflect impairment, with changes in carrying amount recognised in the consolidated statement of comprehensive income within administrative expenses.
- *'Cash and cash equivalents'* – these comprise deposits with an original maturity of three months or less with banks and financial institutions, bank balances, bank overdrafts and cash in hand. Bank overdrafts that cannot be offset against other cash balances are shown within borrowings in current liabilities on the consolidated statement of financial position.

A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable may be impaired. The amount of the provision is the difference between the asset's carrying amount and the net present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of provision account, and the amount of the loss is recognised in the consolidated statement of comprehensive income within administrative expenses. When a trade receivable is not collectable, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated statement of comprehensive income.

Financial liabilities

The Group's non-derivative financial liabilities are classified as 'Other liabilities'. 'Other liabilities' are financial liabilities with fixed or determinable payments that are not quoted in an active market. They arise when the Group receives goods or services directly from a creditor or supplier, or borrows money, with no intention of trading the liability. This category includes:

- *'Trade and other payables'* – these are typically non-interest bearing and following initial recognition are included in the balance sheet at amortised cost.
- *'Bank loans and overdrafts'* – these are initially recorded at fair value based on proceeds received net of issue costs. Finance charges are accounted for on an accruals basis and charged to the consolidated statement of comprehensive income using the effective interest rate method.

22 Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2010

2 ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

- 'Borrowings' – these are recorded initially at the fair value, net of direct issue costs, and are subsequently stated at amortised cost. Finance charges, including premiums payable on settlement, or redemption and direct issue costs, are accounted for on an accruals basis in the consolidated statement of comprehensive income, using the effective interest method, and are included within the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

The Group does not have any non-derivative financial assets or liabilities classified as 'at fair value through profit and loss'.

Measurement basis

Financial assets and liabilities are recognised on the date on which the Group becomes a party to the contractual provisions of the instrument giving rise to the asset or liability. Financial assets and liabilities are initially recognised at fair value plus transaction costs. Any impairment of a financial asset is charged to the consolidated statement of comprehensive income when incurred. Financial assets are derecognised when the Group's rights to cash inflows from the asset expire; financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expire.

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 date of the consolidated statement of financial position, and are discounted to present value where the effect is considered material.

Employee benefits

Pension obligations

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Share based payments under Long Term Incentive Plans (LTIP)

In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as of 1 July 2006.

The Group issues equity-settled share-based payments to certain employees which must be measured at fair value and recognised as an expense in the consolidated statement of comprehensive income with a corresponding increase in equity. The fair values of these payments are measured at the dates of grant, taking into account the terms and conditions upon which the awards are granted. The fair value is recognised over the period during which employees become conditionally entitled to the awards, subject to the Group's estimate of the number of awards which will lapse, either due to employees leaving the Group prior to vesting or due to non-market based performance conditions not being met. The total amount recognised in the consolidated statement of comprehensive income as an expense is adjusted to reflect the actual number of awards that vest.

Equity

Equity comprises the following:

Share capital	represents the nominal value of equity share.
Share premium	represents the excess over nominal value of the fair value of the consideration received for equity shares, net of expenses of the share issue.
Share based payment reserve	represents equity-settled share based employee remuneration until such share options are exercised
Capital redemption reserve	reflects the value of shares redeemed or purchased by the company from distributable profits.
Merger reserve	is a reserve arising from the merger accounting of Inov8 Technologies Limited and Moving Sun Limited on acquisition by Mid-States plc, arose prior to implementation of IFRS 3 Business Combinations
Retained earnings	represents accumulated profits and losses

Share capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

2 ACCOUNTING POLICIES (continued)

Taxation including deferred tax

The tax expense represents the sum of the current tax and deferred tax charges or credits.

Current tax is based on the taxable profit for the year. Taxable profit differs from the net profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the consolidated statement of financial position date. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the consolidated statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

IAS 12 Income taxes requires that the measurement of deferred tax should have regard to the tax consequences that would follow from the manner of expected recovery or settlement at the consolidated statement of financial position date of the carrying amount of its assets and liabilities. In calculating its deferred tax liability the Group's policy is to regard the depreciable amount of the carrying value of its property, plant and equipment to be recovered through continuing use in the business, unless included within assets held for resale, where the policy is to regard the carrying amount as being recoverable through sale.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Segmental reporting

Mid-States PLC is an environmental technology Group with only one business segment which is air disinfection.

A segment is a distinguishable component of the Group, as reported internally and reviewed by the Board and chief operating decision maker. A geographical segment is engaged in providing products and services within a particular economic environment that is subject to risks and returns which are different from those of segments operating in other economic environments.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the finance department under policies approved by the Board of Directors.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group's policy is, where possible, to allow the Group entities to settle liabilities in their functional currency with the cash generated from their operations in that currency. Where the Group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them) cash already denominated in that currency will, where possible, be transferred from elsewhere in the Group.

To manage the foreign exchange risk arising on future transactions, it is the Group's policy that it would enter into forward currency contracts to hedge the exposure, if the need arose.

The Group had no forward currency contracts at 30 June 2010.

3 FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk

As the Group has no significant interest bearing assets its revenue and cash generated from operations are substantially independent of changes in market interest rates.

Credit risk

Credit risk arises from the Group's trade receivables and cash held with banks. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument.

The Group does not have any significant credit risk exposure to any single company or Group of companies. Prior to accepting new customers an independent credit check is obtained. Based on this information individual credit limits and payment terms are established and where appropriate credit guarantee insurance cover is obtained. If no independent credit ratings are available, customers are asked to pay on a proforma basis or with a confirmed letter of credit until creditworthiness can be established. The utilisation of credit limits is regularly monitored. Credit limits may only be exceeded with the authorisation from senior management, this is dependent on the amount expected to exceed the limit and the Group's trading history with that customer.

There is no difference between the carrying amount and the maximum credit risk exposure.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and finance charges. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

Management monitors rolling forecasts of the Group's cash on a monthly basis. The Group ensures that it has adequate resources available to cover both its short and medium term commitments. In addition, the Group's liquidity management policy is to project cash flows in major currencies and consider the level of liquid assets necessary to meet these. Where necessary management will seek additional funding from shareholders.

The Group has a forward exchange facility of \$165,000 provided by HSBC Bank plc, this is renewable annually and the next review is in May 2011.

Capital risk management

The Group's objectives when managing capital are to safeguard the entities' ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables and cash and cash equivalents are assumed to approximate their fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and judgements concerning future events. The resulting accounting estimates will seldom precisely equal the related actual results. The Group applies its best endeavours in setting accounting estimates, and uses historical experience and other factors, including input from experienced and specialist management. Estimates and judgements are continually re-evaluated and the resulting accounting balances updated as new information including actual outcomes become apparent.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue recognition

Sales are made to a number of different channels and territories. The Group recognises revenue when goods are despatched, title has passed and payment has been received or is considered probable within agreed payment terms. The Group is seeking to penetrate new markets and acceptance within the market is evaluated prior to the recognition of revenue. In making this judgement management review the country risk, the customers trading history with the Group and whether documentary payment instruments (for example a confirmed letter of credit) are being utilised.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of non-financial assets

The Group tests annually whether its non current assets have suffered any impairment, in accordance with its accounting policies. The recoverable amounts of cash generating units have been determined based on value in use (VIU) calculations. These calculations require use of estimates of future sales, margins, and other operating and administrative expenses, and of discount rates. Further disclosures relating to the estimates and assumptions applied, and carrying amounts of the non-financial assets, are set out in note 12.

The Group makes provision for impairment in the carrying amount of its inventories. The Group has skilled and experienced management who exercise their judgement in making estimates about the extent of provisions necessary based on the realisable value of inventory and taking into account the estimated price and volume of future sales less the further costs of sale. The carrying amount of inventories is disclosed in note 14.

Deferred tax recognition

The amount of deferred tax recognised is based on estimates of the timing and amount of future taxable profits of companies within the Group, which in turn relies upon estimates of future operating profits and the occurrence, timing and tax treatment of significant items of income and expenditure including contributions to pension schemes and the vesting of share based payment awards. Based on the current trading profile and the uncertainty, deferred tax assets arising from tax losses available to carry forward have not been recognised. The amount of deferred tax asset not recognised and other relevant disclosures are included in note 11.

Share based payment awards

The Group has granted awards to executive Directors. The fair value of the awards granted is charged against the consolidated statement of comprehensive income over the vesting period; the amount of that charge is dependent upon the Group's estimates in assessing fair values and how many awards will ultimately vest. Further disclosures relating to the effect on the financial statements of share awards is included note 20.

Warranty provision

The AD is a relatively new product and as a consequence there is a limited amount of post sales data available. Therefore, the warranty provision is based on the management's assessment of the costs associated with supporting the product in the various channels and territories.

5 SEGMENTAL ANALYSIS

Mid-States PLC is an environmental technology group. The Group has one 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 £16,300 (2009: £16,300).

Two distributors represent 60% of our total revenue. However, we expect our reliance on these two companies to reduce as sales are made to new distributors.

Geographical analysis

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

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

	2010 £'000	2009 £'000
United Kingdom	36	315
Other EU	145	21
Rest of World	130	–
Continuing operations	311	336

26 Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2010

6 STAFF COSTS

Employees

The average monthly number of people employed during the year (excluding Directors) for continuing operations was:

	2010 £'000	2009 £'000
Engineering and operations	11	11
Logistics and supplies	1	1
Sales and marketing	7	2
Support	4	2
	23	16

Staff costs (excluding Directors' remuneration) incurred during the year in respect of these employees for continuing operations was:

	2010 £'000	2009 £'000
Salaries	797	465
Social security costs	88	51
Other pension costs – stakeholder	25	15
	910	531

The Group's key management personnel are the Directors, their remuneration is detailed below.

7 DIRECTORS

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

Name of director	2010 £'000				2009 £'000			
	Salary and allowances	Pension	Share based payment*	Total	Salary and allowances	Pension	Share based payment*	Total
Executive:								
Javier Segura	20	–	–	20	3	–	–	3
Andrew Tonks	135	9	16	160	194	10	16	220
Mike Heath (resigned 19 November 2008)	–	–	–	–	86	–	–	86
Non-executive:								
John Bateson	10	–	–	10	10	–	–	10
Glenn Cooper	10	–	–	10	9	–	–	9
Esteban Monegal	10	–	–	10	3	–	–	3
David Plucinsky (resigned 30 March 2009)	–	–	–	–	53	–	–	53
Paul Dumond (resigned 30 September 2008)	–	–	–	–	3	–	–	3
Christopher Mills (resigned 16 December 2008)	–	–	–	–	3	–	–	3
	185	9	16	210	364	10	16	390

* The value of share based payments are calculated under IFRS 2 and are not actual payments made to the Directors during the year.

Related party transactions are disclosed in note 26.

8 INTEREST RECEIVABLE AND PAYABLE

	2010 £'000	2009 £'000
Finance revenue	25	10

9 OPERATING LOSS

The operating loss is stated after charging:

	2010 £'000	2009 £'000
Depreciation and amortisation on owned assets:		
– intangible assets	118	118
– tangible assets	80	21
Research and development costs – air disinfection	324	303
Fees payable to the Company's auditor for the audit of the Company's annual accounts	15	18
Fees payable to the Company's auditor for other services:		
– audit of the Company's subsidiaries	15	7
– other services	–	–
– taxation fees	7	6

10 LOSS PER SHARE

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

Loss	2010 £'000	2009 £'000
Loss for the purposes of basic earnings per share being the net loss attributable to equity holders of the parent: – continuing operations	(2,331)	(2,366)
– continuing and discontinued operations	(2,331)	(1,577)
Loss for the purposes of diluted earnings per share being the net loss attributable to equity holders of the parent: – continuing operations	(2,331)	(2,366)
– continuing and discontinued operations	(2,331)	(1,577)
Number of shares	2010	2009
Weighted average number of ordinary shares for the purpose of basic loss per share:	123,621,062	93,432,152
Weighted average number of ordinary shares for the purpose of diluted loss per share:	123,621,062	93,432,152
Loss per share	2010	2009
Basic loss per share – continuing operations	(1.88)p	(2.53)p
– continuing and discontinued operations	(1.88)p	(1.69)p
Diluted loss per share – continuing operations	(1.88)p	(2.53)p
– continuing and discontinued operations	(1.88)p	(1.69)p

28 Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2010

II TAX ON LOSS ON ORDINARY ACTIVITIES

	2010 £'000	2009 £'000
Deferred tax	(34)	(33)
Tax on loss on ordinary activities	(34)	(33)

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	(2,365)	(2,399)
Tax on loss on ordinary activities at 28% (2009: 28%)	(662)	(672)
Factors affecting charge for the year:		
– Non deductible expenses	15	34
– Deferred tax unprovided	613	605
Tax charge in the year	(34)	(33)

The Group has tax losses arising in the UK of £6.6 million (2009: £4.3 million) that are available indefinitely for offset against future taxable profits in those companies in which the losses arose.

Deferred income tax

The deferred tax liability recognised in respect of non-deductible intangible assets (excluding goodwill) is as follows:

	2010 £'000	2009 £'000
Deferred tax liability to be recovered:		
– after more than one year	147	182
– within one year	34	33
Deferred tax liability	181	215

The gross movement in deferred income tax account is as follows:

	2010 £'000	2009 £'000
Deferred tax liability at 1 July	215	248
– consolidated statement of comprehensive income charge/credit	(34)	(33)
Deferred tax liability at 30 June	181	215

There are unprovided deferred tax assets as follows:

	2010 £'000	2009 £'000
Losses	(1,819)	(1,206)

12 INTANGIBLE ASSETS

	Goodwill £'000	AD Intellectual property £'000	AD Development costs £'000	Total £'000
Cost				
1 July 2008 and 30 June 2009	5,823	1,000	92	6,915
1 July 2009 and 30 June 2010	5,823	1,000	92	6,915
Amortisation				
At 1 July 2008	4,708	175	21	4,904
Charge	–	100	18	118
At 30 June 2009	4,708	275	39	5,022
At 1 July 2009	4,708	275	39	5,022
Charge	–	100	18	118
At 30 June 2010	4,708	375	57	5,140
Net book value				
At 30 June 2010	1,115	625	35	1,775
At 30 June 2009	1,115	725	53	1,893

Goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The goodwill is attributable to the Air Disinfection technology owned by Moving Sun Limited and being commercially exploited by Inov8 Science Limited.

In assessing whether a write-down of goodwill is required to the carrying value of the asset, the carrying value of the cash generative unit (CGU) is compared with its recoverable amount. The recoverable amount of goodwill above has been determined on a value in use calculation using a 5 year cash flow forecast based on projected future trading, discounted to arrive at a net present value.

As the air disinfection technology is unique and was only launched in 2007 with the first sale on a commercial basis in 2008, the forecasts are not based on a conventional growth forecast model because management expects revenues to be low in the short term but grow rapidly once the AD product is established in each market. Management have adopted a prudent approach when preparing the forecast. Although, management consider the air disinfection technology still has a long useful economic life a 5 year forecast period was considered to be appropriate under the current circumstances.

The key assumptions of the 5 year forecast are as follows:

- Sales are forecast only in relation to selected territories where distributors have been identified.
- Revenues are determined by management's expectation of sales volumes achievable in the aforementioned markets and they are projected to grow significantly during the forecast period.
- The forecast revenues are based on the current selling price for the AD less management's estimate of the discounts required for increased sales volumes and to mitigate the impact of any price competition in individual markets.
- The forecast gross margin is based on expected manufacturing and supply arrangements.
- The forecast operating profit is based on management's expectation of operating costs appropriate to growing the business. The forecast includes an allowance for continued investment in product development and sales and marketing to support the growth forecast.
- The Group will have sufficient cash resources to fund the investment required to enter the markets in the forecast and to achieve the revenue levels included in the forecast.
- The pre-tax discount rate applied to the cash flow projections is 20% to reflect current market estimates of the time value of money and the Group's weighted average cost of capital.

The cash flow projection takes account of management's assessment of the sensitivities and risks specific to the business. As a result of the review there was no impairment charge recognised in the year (2009: Nil). The carrying value of the goodwill is £1,115,000 (2009: £1,115,000).

30 Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2010

13 PROPERTY, PLANT AND EQUIPMENT

	Plant & machinery £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 July 2008	892	91	15	998
Additions	–	2	–	2
Disposals due to discontinued operations	(753)	(87)	(13)	(853)
At 30 June 2009	139	6	2	147
Depreciation				
At 1 July 2008	753	87	10	850
Charge for the year	15	1	5	21
On disposals	(753)	(87)	(13)	(853)
At 30 June 2009	15	1	2	18
Net book value				
At 30 June 2009	124	5	–	129

	Plant & machinery £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 July 2009	139	6	2	147
Additions	89	2	–	91
Disposals	(19)	(2)	–	(21)
At 30 June 2010	209	6	2	217
Depreciation				
At 1 July 2009	15	1	2	18
Charge for the year	77	3	–	80
On disposals	(3)	(1)	–	(4)
At 30 June 2010	89	3	2	94
Net book value				
At 30 June 2010	120	3	–	123

14 INVENTORIES

	2010 £'000	2009 £'000
Raw materials	126	215
Provision for obsolete/slow moving stock	(69)	(154)
Finished goods	103	183
Work in progress	–	36
	160	280

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £194,000 (2009: £174,000). This includes an amount of £67,000 (2009: £154,000) resulting from write down of inventories.

15 TRADE RECEIVABLES

	2010 £'000	2009 £'000
Current:		
Trade receivables	70	14
Less provision for impairment of trade receivables	(1)	–
Net trade receivables	69	14

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

Trade receivables that are less than three months past due are not considered impaired. As of 30 June 2010 there were no trade receivables that were past due but not impaired. (2009: £nil)

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

	2010 £'000	2009 £'000
Sterling	30	7
Euros	39	7
	69	14

The Group considers that any exposure to concentrations of credit risk will be impacted principally by underlying economic conditions in the principal geographical segments in which the Group operates. As at the consolidated statement of financial position date the carrying value of trade receivables by geographical segment was:

	2010 £'000	2009 £'000
United Kingdom	6	7
Continental Europe	39	7
North America	14	–
Rest of World	10	–
	69	14

32 Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2010

16 OTHER CURRENT ASSETS

	2010 £'000	2009 £'000
Value added tax recoverable	38	9
Prepayments, accrued income and other current assets	59	42
	97	51

17 TRADE PAYABLES AND OTHER CURRENT LIABILITIES

	2010 £'000	2009 £'000
Trade payables	211	124
Social security and other taxes	47	29
Pension creditors	3	4
Value added tax	–	2
Other creditors and accruals	162	428
Deferred income	9	16
	432	603

There were no trade payables over three months old.

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2010 £'000	2009 £'000
Sterling	211	124

18 PROVISIONS

Warranty provision	2010 £'000	2009 £'000
At 1 July 2009	84	207
Provided/(released) for during the year	105	(123)
At 30 June 2010	189	84
Analysis of total provision		
	2010 £'000	2009 £'000
Current	189	84

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. This is reviewed on a regular basis as more post sales data is obtained.

19 FINANCIAL INSTRUMENTS

Financial Assets

	Fair value 2010 £'000	Fair value 2009 £'000
Loans and receivables:		
– Trade and other receivables	69	14
– Other current assets	59	42
– Cash and cash equivalents	3,818	2,230
	3,946	2,286

Financial Liabilities

	Fair value 2010 £'000	Fair value 2009 £'000
Financial liabilities measured at amortised cost:		
– Trade and other payables*	376	556
	376	556

* excludes taxes and deferred income liabilities which are not defined as financial liabilities under IAS39.

The fair value of all financial assets and liabilities shown above is equivalent to the amortised cost and carrying amount.

20 CALLED UP SHARE CAPITAL

For the year ended 30 June 2010 called up share capital comprises ordinary shares of one pence each as follows:

	Allotted called up and fully paid	
	Number of shares	£'000
At 1 July 2009	116,082,412	1,161
Shares issued on 11 June 2010	144,821,427	1,448
At 30 June 2010	260,903,839	2,609

Options

The following options, which include those detailed in the Directors' report, granted under the 1999 Stock Option Plan and the unapproved, Share Option Plan were outstanding at 30 June 2010:

Date of grant	Exercise price	Expiry date	30 June 2010 Number of ordinary shares	30 June 2009 Number of ordinary shares
29 March 2007	18.25p	29 March 2017	175,000	175,000
8 April 2008	23.75p	8 April 2018	100,000	100,000
21 January 2010	5.75p	21 January 2020	555,000	–
21 January 2010	*	21 January 2020	2,220,000	–
Number of share options at 30 June 2009			275,000	275,000
Number of share options granted in the year			2,775,000	–
Number of share options at 30 June 2010			3,050,000	275,000
Number of share options vested at 30 June 2010			275,000	275,000

* Exercise price dependant on market price.

34 Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2010

20 CALLED UP SHARE CAPITAL (continued)

The Share options granted on 29 March 2007 and 8 April 2008 were granted under the Company's 1999 Stock Option Plan. These options normally become exercisable in tranches of one third on each anniversary of the date of grant commencing on the first anniversary of the date of grant.

555,000 Share options granted on 21 January 2010 at 5.75 pence were granted under the Unapproved Share Option Plan 2009. These options are not subject to performance conditions and vest only after three years (subject to the terms of the Plan).

The remaining Share options granted on 21 January 2010 at no specified exercise price, were granted under the Unapproved Share Option Plan 2009. These options are subject to the achievement of challenging performance conditions linked to the financial results of the Group over the next three years and, subject to these conditions and may vest over the next three years. Of these options, one third is at an exercise price of 5.75 pence per share, with the balance being at a discount of 15% of the market price on the relevant anniversary of grant subject to a minimum price of 5.75 pence per share.

Share based payment

A share based payment charge of £16,300 (2009: £16,300) has been recognised in the consolidated statement of comprehensive income under IFRS2. The Discounted Cash Flow method was used to calculate these values. No share based payment charge has been recognised on options granted in the year as no material charge is calculated to arise. Significant inputs into the valuation model include volatility at 50%, dividend yield at 0%, expected option life of 5 years and risk free interest rate of 3%.

21 LEASING COMMITMENTS

At 30 June 2010, the Company had total leasing commitments of £134,000 (2009: £nil).

Future lease commitments:

	2010 £'000	2009 £'000
Within one year	63	–
Within two to five years	71	–
Total leasing commitments	134	–

22 CAPITAL COMMITMENTS

At 30 June 2010 there were no capital commitments contracted for but not provided for (2009: £nil).

23 CONTINGENT LIABILITIES

There were no contingent liabilities at 30 June 2010 (2009: £nil).

24 PENSION COMMITMENTS

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 2010 was £25,000 (2009: £15,000).

25 DISCONTINUED OPERATIONS

There were no discontinued operations in the year ended 30 June 2010. In the year ended 30 June 2009 the Group placed Inov8 Technologies into administration and the operating loss and the profit from disposal of the assets and liabilities from the engineering division are detailed in the 2009 Annual Report.

26 RELATED PARTY TRANSACTIONS

The ultimate parent is controlled by Mid-States PLC (incorporated in the UK) Details of its subsidiaries are shown below:

	Activity	Holding
AD Science Limited	Trading	100%
Inov8 Science Limited	Trading	100%
Moving Sun Limited	Non-Trading ⁽¹⁾	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%
Ensco 720 Limited	Dormant	100%

⁽¹⁾ Moving Sun Limited owns the intellectual property rights acquired by Mid-States PLC on 5 October 2006.

Javier Segura is a director and a significant shareholder of MMSR and Associates Corporate Trading SL and during the year 146,000 Euros (2009: 37,000 Euros) were paid to MMSR by Inov8 Science Limited for the provision of consultancy services and associated expenses.

36 Mid-States PLC Company Accounts

Independent Auditor's Report to the Members of Mid-States PLC

We have audited the parent company financial statements of Mid-States PLC for the year ended 30 June 2010 which comprise the parent company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the group financial statements of Mid-States PLC for the year ended 30 June 2010.

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

Cambridge
19 October 2010

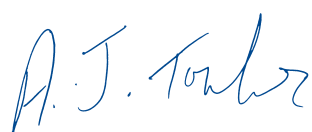
Mid-States PLC Company Accounts – UK GAAP 37 Company Balance Sheet

At 30 June 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Investments	2	5,227	5,227
Current assets			
Debtors due in one year	3	30	9
due after more than one year	3	3,172	672
Cash at bank and in hand		3,142	2,225
		6,344	2,906
Creditors: amounts falling due within one year	4	(207)	(435)
Net current assets		6,137	2,471
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	4	(3,834)	(3,834)
Net assets		7,530	3,864
Capital and reserves			
Called up share capital		2,609	1,161
Share premium account		6,955	4,543
Share based payment reserve		83	67
Capital redemption reserve		253	253
Merger reserve		3,250	3,250
Profit and loss account		(5,620)	(5,410)
Total equity shareholder's fund	6	7,530	3,864

These financial statements were approved by the Board of Directors on 19 October 2010.

Signed on behalf of the Board of Directors



Andrew Tonks
Finance Director

I ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared on a going concern basis and under the historical cost convention. They have been prepared in accordance with applicable accounting standards and United Kingdom Generally Accepted Accounting Practice, with the Companies Act 2006, and with the accounting policies set out below which have been consistently applied to all periods presented unless otherwise indicated.

Profit and loss account

No profit and loss account is presented for Mid-States PLC ('the Company') as it has applied the exemption provided by Section 408 of the Companies Act 2006. A loss of £210,000 (2009: £667,000, loss) has been dealt with in the accounts of the parent company.

Consolidation

These financial statements present information relating to the entity Mid-States PLC, and are not consolidated. The consolidated financial statements of the Group of which the Company is the parent are separately presented within this Annual Report and Accounts under IFRS.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Impairment of fixed assets and investments

Fixed assets and investments are subject to review for impairment in accordance with Financial Reporting Standard No. 11. Where impairment triggers are identified the recoverable amount of the relevant asset, or group of assets within an income generating unit, is determined, being the higher of value in use and net realisable value. If the carrying amount of the asset exceeds its recoverable amount impairment loss is calculated. Any impairment is recognised in the profit and loss account in the year in which it occurs. Where impairments have been identified in prior years and the recoverable amount was based on value in use, an updated discounted cash flow is prepared annually to assess whether the previous impairment in value has reversed. When all conditions are met, the impairment is reversed and recognised in the profit and loss in the year in which the reversal occurs.

Employee benefits

Share based payments under long term incentive plans (LTIP)

In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2006. The Company issues equity-settled share-based payments to certain employees which must be measured at fair value and are recognised as an expense in the profit and loss account with a corresponding increase in equity. The fair values of these payments are measured at the dates of grant, taking into account the terms and conditions upon which the awards are granted. The fair value is recognised over the period during which employees become conditionally entitled to the awards, subject to the Company estimate of the number of awards which will lapse, either due to employees leaving the Company prior to vesting or due to non-market based performance conditions not being met. The total amount recognised in the profit and loss account as an expense is adjusted to reflect the actual number of awards that vest.

Employee benefits

Pensions

The Mid-States PLC Group operates a defined contribution pension schemes for the benefit of its employees. Further details of these schemes are included in note 24 of the consolidated financial statements of the Group presented within the Annual Report and Accounts. Note 7 of the consolidated financial statements of the Group and the Directors' Remuneration Report shows details of the directors emoluments paid by the Company.

Share capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Deferred taxation

Deferred taxation is recognised in respect of timing differences that have originated but not reversed at the balance sheet date and that give rise to an obligation to pay more tax or a right to pay less tax in the future. Deferred tax is calculated using the average rates that are expected to apply when the timing differences reverse, based on tax rates that have been substantively enacted by the balance sheet date. No provision has been made for any liability arising from the distribution of past earnings of subsidiary undertakings. Deferred tax assets are only recognised when it is more likely than not that they will be recovered in the foreseeable future.

Related party transactions

Note 26 within the consolidated financial statements of the Group showed details of the related party transactions during the year for the Company.

2 INVESTMENTS

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
Cost			
At 1 July 2009 and at 30 June 2010	34,015	750	34,765
Provision			
At 1 July 2009 and at 30 June 2010	(29,538)	–	(29,538)
Net book value			
At 30 June 2009 and at 30 June 2010	4,477	750	5,227

At 30 June 2010, the Company had an interest in the following subsidiaries; all of which are registered in England and Wales except where stated:

	Activity	Holding
AD Science Limited	Trading	100%
Inov8 Science Limited	Trading	100%
Moving Sun Limited	Non-Trading ⁽¹⁾	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%
Ensco 720 Limited	Dormant	100%

⁽¹⁾ Moving Sun Limited owns the intellectual property rights acquired by Mid-States PLC on 5 October 2006.

All subsidiaries are directly owned.

3 DEBTORS

	2010 £'000	2009 £'000
Amounts falling due in one year:		
Value added tax recoverable	25	5
Prepayments and accrued income	5	4
	30	9
Amounts falling due after one year:		
Amounts due from subsidiaries	3,172	672
	3,172	672

40 Notes to the Company Accounts (continued)

For the year ended 30 June 2010

4 CREDITORS

	2010 £'000	2008 £'000
Amounts falling due in one year:		
Trade creditors	108	72
Other creditors	12	16
Accruals and deferred income	87	347
	207	435
Amounts falling due after one year:		
Amounts owed to subsidiaries	3,834	3,834
	3,834	3,834

5 DEFERRED TAX

There are unprovided deferred tax assets as follows:

	2010 £'000	2009 £'000
Unutilised tax losses	1,088	953
	1,088	953

6 STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital £'000	Capital redemption reserve £'000	Share premium account £'000	Share based payment reserve £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At 1 July 2009	1,161	253	4,543	67	3,250	(5,410)	3,864
Loss for the year	–	–	–	–	–	(210)	(210)
Shares issued	1,448	–	2,412	–	–	–	3,860
Share based payments	–	–	–	16	–	–	16
At 30 June 2010	2,609	253	6,955	83	3,250	(5,620)	7,530

7 SHARE BASED PAYMENTS

Details of the relevant share options and the calculation of the share based payment charge is included in note 20 of the Group financial statements. IFRS2, which is used to account for share based payments in the Group financial statements, is identical to FRS20 in UK GAAP, which is used in the parent company financial statements. As such the disclosures are identical.

8 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2010 £'000	2009 £'000
Loss for the year	(210)	(667)
Shares issued during year	3,860	4,011
Share based payments	16	16
Net addition/(decrease) to shareholders' funds	3,666	3,360
Opening shareholders' funds	3,864	504
Closing shareholders' funds	7,530	3,864

John Bateson, Chairman

John Bateson, aged 47, was appointed a Non-Executive Director in July 1997, and Chairman in March 2009. John is Chairman of the Remuneration, and a member of the Audit 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.

Javier Segura, Managing Director

Javier Segura, aged 64, was appointed Chief Executive of Operating Subsidiaries in March 2009 and Managing Director of the Group in June 2009. Prior to joining Mid-States he spent much of his professional career at Pirelli Telecom Cables & Systems Spa, being CEO of Europe, Middle East, India and Africa until 2004. He is Managing Director of MMSR Associates SL, which dedicates its activity to international consultancy services in various sectors.

Andrew Tonks, Finance Director

Andrew Tonks, aged 47, was appointed Financial Director in June 2007 and is a Fellow of the Association of Chartered Certified Accountants. 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.

Glenn Cooper, Non-Executive Director

Glenn Cooper, aged 66 was appointed a Non-Executive Director in August 2008. Glenn is Chairman of the Audit Committee, and a member of the Remuneration and Nominations Committees. Prior to joining Mid-States, Glenn held senior positions within a number of groups including Henry Ansbacher & Co and Altium Capital and is former Chairman of Zeus Capital. He has more than 30 years of experience as a Corporate Financier advising both listed and private companies in the UK, Europe and the USA.

Esteban Monegal, Non-Executive Director

Esteban Monegal, aged 61, was appointed Non-Executive Director in March 2009. Esteban is Chairman of the Nominations Committee, and a member of the Audit and Remuneration Committees. Prior to joining Mid-States, Esteban held several executive positions in his thirty years at Enterprise Myrurgia, a cosmetics company, including the position of CEO of the Myrurgia Group. Since selling the Myrurgia Group in 2000, he has built Esmo Empresarial S.L. with interests in the industrial, financial, real estate and international consultancy sectors.

42 Annual General Meeting

The Company's Annual General Meeting will be held at the offices of Inov8 Science Ltd, Mill Court, Featherstone Road, Wolverton Mill, Milton Keynes, MK12 5EU at 10 am on 15 December 2010. The Notice of Meeting follows, and sets out the business to be transacted. An explanation of each of the resolutions follows below:

Resolution 1: To Receive and Adopt the Annual Report

This is an ordinary resolution to receive and adopt the Company's Annual Report and Accounts for the financial year ended 30 June 2010.

Resolution 2: Re-appointment of Director

The Company's Articles of Association require that every year a number, not exceeding one third of the directors, retire from office and, if appropriate, seek re-appointment. This year, Andrew Tonks retires in this way and ordinary resolution 2 is for his re-appointment.

Resolution 3: Re-appointment of Auditors

The Company's Auditors are required to be re-appointed at every AGM. Resolution 3 is an ordinary resolution to approve the re-appointment of Grant Thornton UK LLP.

Resolution 4: Auditors Remuneration

This is an ordinary resolution to authorise, as is customary, the Directors to set the remuneration of the auditors.

Resolution 5: Allotment of Relevant Securities

This is an ordinary resolution to renew and extend the existing authority to allot shares, pursuant to section 551 of the Companies Act 2006, up to an aggregate of 86,967,900 ordinary shares, representing approximately one-third of the Company's issued share capital. This authority is to expire on 14 December 2015.

Resolution 6: Disapplication of Pre-emption Rights

This is a special resolution to renew and extend the existing authority to disapply statutory pre-emption rights, pursuant to section 571 of the Companies Act 2006, thus overcoming certain technical difficulties that may arise in connection with a rights issue. It also permits issue of the Company's share capital in connection with share options or for cash, other than pro-rata to shareholders, up to an aggregate of 26,090,300 ordinary shares, representing approximately 10% of the ordinary share capital currently in issue. This authority is to expire on 14 December 2015.

Notice is hereby given that the Annual General Meeting of Mid-States PLC will be held at the offices of Inov8 Science Ltd, Mill Court, Featherstone Road, Wolverton Mill, Milton Keynes, MK12 5EU at 10 am on 15 December 2010.

Agenda

To consider and if thought fit to approve the following ordinary resolutions numbered 1 to 5:

1. To receive and adopt the Annual Report and Accounts for the year ended 30 June 2010.
2. To re-appoint Andrew Tonks as a Director.
3. To re-appoint Grant Thornton UK LLP as auditors.
4. To authorise the Directors to set the remuneration of the auditors.
5. That the Directors be authorised, pursuant to section 551 of the Companies Act 2006 (the "Act") to exercise all powers of the Company to allot shares (as defined in s540 of the Act) or grant rights to subscribe for or to convert any security into shares in the Company ("Relevant Securities) up to an aggregate nominal amount of £869,679 PROVIDED THAT this authority shall expire on 14 December 2015 (unless previously varied, revoked or renewed by the Company in general meeting) 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.
6. 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 571 of the Act) as if Section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to:

- a. the allotment of equity securities in connection with an offer by any person (whether by way of rights issue, open offer or otherwise) to the holders of the issued ordinary shares in the capital of the Company (excluding any shares of that class held as treasury shares), where the equity securities respectively attributable to the interests of such ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by such holders; such allotments may be made subject to such exclusions or other arrangements as the directors consider appropriate, necessary or expedient to deal with any fractional entitlements or with any legal or practical difficulties arising under the laws of any territory or the requirements of any regulatory body or recognised investment exchange or otherwise; and
- b. the allotment, 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, up to an aggregate nominal value of £260,903.
- c. the allotment (otherwise than pursuant to paragraph 6.a and b above) of equity securities up to an aggregate nominal value of £260,903

PROVIDED THAT the power to allot equity securities in accordance with this resolution shall expire on 14 December 2015 (unless previously varied, revoked or renewed by the Company in general meeting) save that the Company may, before the date of expiry, make an offer or agreement that would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred by this resolution had not expired.

By Order of the Board

Tony Hunter

Secretary

19 October 2010

44 Notice of Meeting (continued)

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy (who need not be a member of the Company) to attend, speak and vote instead of him. A form of proxy is enclosed with this notice. The completion and return of the proxy form does not preclude a member from attending the Meeting and voting in person.
2. A member may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by such member. To appoint more than one proxy, please sign and date the form of proxy and, if necessary, attach a schedule listing the names and addresses (in block letters) of all of your proxies, the number of shares in respect of which each proxy is appointed (which, in aggregate, should not exceed the number of shares held by you) and indicating how you wish each proxy to vote or abstain from voting. You may not appoint more than one proxy to exercise the rights attached to any one share. If you wish to appoint the Chairman as one of your multiple proxies, simply write "the Chairman of the Meeting".
3. In order to be valid, the form of proxy and any power of attorney, or notarially certified copy thereof, under which it is executed, must be received by the Company no later than 10 am on 13 December 2010, having been returned by one of the following methods: either in hard copy form by post, by courier or by hand to the Company's Registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY.
4. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have the right to be appointed (or to have someone else appointed) as a proxy for the Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise such right, he/she may, under such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
5. The statement of the rights of members in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
6. 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 6 pm on 13 December 2010 shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their name at that time. Subsequent changes to entries on the register of members shall be disregarded in determining the rights of any person to attend or vote at the Meeting.
7. If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, the time referred to in the immediately preceding paragraph will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purposes of determining the number of votes they may cast) at the adjourned Meeting. If, however, the Meeting is adjourned for a longer period, then to be so entitled members must be entered on the Company's register of members at 6 pm on the date which is two days before the date of the adjourned Meeting.
8. As at 19 October 2010 (being the date of this Notice) the Company's issued share capital comprises 260,903,839 Ordinary Shares of £0.01 each, each such share carrying one vote. Accordingly, the total voting rights in the Company as at 19 October 2010 are 260,903,839.