

MIDLAND RESOURCES UK LIMITED

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

31ST DECEMBER 2004



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MIDLAND RESOURCES UK LIMITED**Directors**

M. T. Pryor
A. Shnaider
E. Chifrin

Secretary and Registered Office

Mrs. M. E. Calvert
Jubilee Works, Clifton Street
Miles Platting, Manchester, M40 8HN

DIRECTORS' REPORT

The directors submit their report financial statements for the year ended 31st December 2004.

PRINCIPAL ACTIVITY AND FUTURE DEVELOPMENTS

The company's principal activity in the year under review was to act as a sales agent for entities participating in the international trade in ferrous metals.

On 30 September 2003, the company withdrew from its agency agreements and ceased trading after experiencing a decline in the attainable turnover within its markets. The directors continue to seek alternative business opportunities through which activities can be expanded. In the interim, the shareholders continue to fund minimal operations.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period. The directors consider that in preparing the financial statements the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and confirm that all applicable accounting standards have been followed. The financial statements have been prepared on a going concern basis.

The directors are responsible for ensuring that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and for ensuring that the financial statements comply with the Companies Act 1985. The directors also have responsibility for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are named above.

The interests of the directors in the ordinary share capital of the company during the year was as follows:-

	£1 ordinary shares	
	At 31st December 2004	At 1st January 2004
A. Shnaider	122,500	122,500

None of the remaining directors have a direct beneficial interest in the company.

MIDLAND RESOURCES UK LIMITED

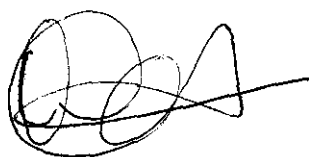
DIRECTORS' REPORT - CONTINUED

AUDITORS

Due to the cessation of operations, the company is exempt from the statutory requirement for audit of its financial statements. Accordingly AGN Shipleys resigned as auditors and were not replaced.

The above report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

By Order of the Board

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Mrs. M. E. Calvert
Company Secretary

31 May 2005

MIDLAND RESOURCES UK LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31ST DECEMBER 2004

	Notes	2004 £	2003 £
TURNOVER & OTHER INCOME	1.1	478	316,343
ADMINISTRATIVE EXPENSES		<u>(324,749)</u>	<u>(947,840)</u>
OPERATING LOSS		(324,271)	(631,497)
EXCEPTIONAL ITEM	4	325,000	550,000
INTEREST PAYABLE		(1)	-
INTEREST RECEIVABLE		<u>-</u>	<u>1,371</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	2	728	(80,126)
TAXATION	5	<u>-</u>	<u>2,345</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED PROFIT/(LOSS) FOR THE YEAR		728	(77,781)
RETAINED (LOSS)/PROFIT BROUGHT FORWARD		<u>(246,408)</u>	<u>(168,627)</u>
RETAINED LOSS CARRIED FORWARD		<u>£(245,680)</u>	<u>£(246,408)</u>

MIDLAND RESOURCES UK LIMITED

BALANCE SHEET

AS AT 31ST DECEMBER 2004

	Notes	2004 £	2003 £
FIXED ASSETS			
Tangible assets	6	53,756	62,716
Investments	7	<u>193,473</u>	<u>193,473</u>
		247,229	256,189
CURRENT ASSETS			
Debtors	8	4,355	30,501
Cash at bank and in hand		<u>10,739</u>	<u>6,210</u>
		15,094	36,711
CREDITORS : Amounts falling due within one year	9	<u>(258,003)</u>	<u>(289,308)</u>
NET CURRENT LIABILITIES		(242,909)	(252,597)
NET ASSETS		<u>£4,320</u>	<u>£3,592</u>
CAPITAL AND RESERVES			
Called up share capital	10	250,000	250,000
Profit and loss account		<u>(245,680)</u>	<u>(246,408)</u>
		<u>£4,320</u>	<u>£3,592</u>

These accounts have been prepared in accordance with the special provisions relating to small companies within Part VII of the Companies Act 1985 and with the Financial Reporting Standard for Smaller Entities (effective June 2002).

For the year ended 31 December 2004 the company was entitled to exemption under section 249A(1) of the Companies Act 1985. No members have required the company to obtain an audit of its accounts for the year in question in accordance with section 249B(2). The directors acknowledge their responsibility for:

- i) ensuring the company keeps accounting records which comply with section 221; and
- ii) preparing accounts which give a true & fair view of the state of affairs of the company as at the end of its profit and loss for the financial year in accordance with section 226, and which otherwise comply with the requirements of the Companies Act relating to accounts, so far as applicable to the company.

Approved by the Board on

M.T. Pryor - Director

31 May 2005

MIDLAND RESOURCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31ST DECEMBER 2004

1. ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002) and with applicable Accounting Standards. Any material departures from Accounting Standards are described below.

1.1 Turnover

Turnover is the aggregate value of sums received and receivable for consultancy fees and commissions.

1.2 Depreciation

Depreciation is provided on all tangible fixed assets in order to write off the cost of the fixed assets over their estimated useful lives as follows :-

Land and buildings	: 10% straight line
Leasehold improvements	: 20% straight line
Computer equipment	: 33 ¹ / ₃ % straight line
Fixtures and fittings	: 20% straight line

1.3 Investments

Investments are stated at cost less provision for any permanent diminution in value.

1.4 Operating Leases

Rental payments under operating leases are charged directly to the profit and loss account on a straight line basis over the lease term.

1.5 Pension Costs

The company operates a defined contribution pension scheme. All pension costs are written off to the profit and loss account when they are incurred.

2. (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2004	2003
	£	£
The (loss)/profit is stated after charging:		
Depreciation:		
Owned assets	8,960	30,859
Pension costs	-	33,044
	<u> </u>	<u> </u>

3. DIRECTORS AND EMPLOYEES

The amounts paid to directors in respect of remuneration was as follows:-

	£	£
Aggregate emoluments	138,000	258,850
Pension costs	-	18,000
	<u> </u>	<u> </u>
	£138,000	£276,850
	<u> </u>	<u> </u>

MIDLAND RESOURCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31ST DECEMBER 2004

4. EXCEPTIONAL ITEM	2004 £	2003 £
Waiver of funding loan from related party (Note 11)	<u>£325,000</u>	<u>£550,000</u>
5. TAXATION		
United Kingdom corporation tax based on the loss for the year:		
(Over)/under-provision in prior year	-	(2,345)
Corporation tax (repayable)/payable at 30%	-	-
(2003 : at 30%)	<u>-</u>	<u>£(2,345)</u>
6. TANGIBLE FIXED ASSETS		
	Land and Buildings £	
Cost		
At 1st January 2004	89,596	
Additions	-	
Disposals	<u>-</u>	
At 31st December 2004	<u>89,596</u>	
Depreciation		
At 1st January 2004	26,880	
On disposals	-	
Provided in year	<u>8,960</u>	
At 31st December 2004	<u>35,840</u>	
Net Book Value		
At 31st December, 2004	<u>£53,756</u>	
At 31st December, 2003	<u>£62,716</u>	
7. INVESTMENTS	2004 £	2003 £
Cost at 1st January 2003 and at 31st December 2003	<u>£193,473</u>	<u>£193,473</u>

The company holds 9% of the ordinary share capital of Joint Stock Commercial Bank "Industrialbank", a company registered in the Ukraine.

MIDLAND RESOURCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31ST DECEMBER 2004

8. DEBTORS	2004 £	2003 £
Corporation tax	-	19,517
Other debtors	4,355	10,984
	<u>£4,355</u>	<u>£30,501</u>
9. CREDITORS : Amounts falling due within one year	2004 £	2003 £
Trade creditors	4,187	1,078
Amount due to related undertaking	253,816	288,230
	<u>£258,003</u>	<u>£289,308</u>
10. SHARE CAPITAL		
Authorised		
1,000,000 ordinary shares of £1 each	<u>£1,000,000</u>	<u>£1,000,000</u>
Issued, called up and fully paid		
250,000 ordinary shares of £1 each	<u>£250,000</u>	<u>£250,000</u>

11. RELATED PARTY TRANSACTIONS

During the year, the company invoiced Midland Resources Holding Limited, a company registered in Guernsey with common shareholders, £nil (2003 : £255,593) for commission on steel sales at agreed rates on an arm's length basis, and £nil (2002 : £60,750) for research and development of new markets, pursuant to an agreement, on normal commercial terms, between the two companies. Midland Resources Holding Limited also provided funding for the company through an interest free loan. The balance due to MRH at 31st December 2003 was £253,816.42, after irrevocable waiver of £325,000 of the loan balance on 31st December, 2004 (2003 : £288,230). This portion of the loan balance was waived by the company's principals, after consultation with the shareholders, in order to maintain the solvency of the company.

MIDLAND RESOURCES UK LIMITED
TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2004

	2004 £	2003 £
TURNOVER & OTHER INCOME	478	316,343
ADMINISTRATIVE EXPENSES – see page 9	<u>(324,749)</u>	<u>(947,840)</u>
OPERATING LOSS	(324,271)	(631,497)
EXCEPTIONAL ITEM	325,000	550,000
Interest payable	(1)	-
Interest receivable	<u>-</u>	<u>1,371</u>
PROFIT/(LOSS) FOR THE YEAR BEFORE TAXATION	<u><u>£728</u></u>	<u><u>£(80,126)</u></u>

MIDLAND RESOURCES UK LIMITED

SCHEDULE TO THE PROFIT AND LOSS ACCOUNT

31ST DECEMBER 2004

	2004 £	2003 £
ADMINISTRATIVE EXPENSES		
Directors' remuneration	138,000	258,850
Salaries	29,856	224,029
Social security	20,768	50,819
Pension costs	-	33,044
Rent, rates and service charge	37,665	97,636
Motor vehicle expenses	-	1,410
Professional fees	2,233	42,227
Couriers	995	6,958
Telephone and fax	51,307	41,249
Printing, postage and stationery	938	5,113
Insurance	-	181
Office cleaning and maintenance	2,332	5,853
Travel and subsistence	29,344	117,805
Entertaining	1,057	8,451
Bank charges	294	599
Health insurance	-	6,345
Credit card charges	-	1,064
Subscriptions	1,000	349
Depreciation		
- Fixtures and fittings	-	8,538
- Computer equipment	-	4,953
- Leasehold improvements	-	8,408
- Flat	8,960	8,960
Loss on disposal of assets	-	14,999
	<u>£324,749</u>	<u>£947,840</u>

This page does not form part of the financial statements.