

1816510

MIDDLESSON HOLDINGS PLC.



THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to obtain your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services Act 1986.

If you have sold or otherwise transferred all of your ordinary shares of 0.25p each in Middlesex Holdings plc (the "Company"), please forward this document and the accompanying Form of Proxy, as soon as possible, to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee. However, such documents should not be forwarded or transmitted in or into the United States, Canada or Australia.

A copy of this document, which comprises a prospectus relating to the Company, prepared in accordance with the listing rules made under section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration as required by section 149 of that Act.

Beaumont Cornish, which is regulated by The Securities and Futures Authority Limited, is acting exclusively for Middlesex Holdings plc in connection with the Rights Issue and Subscription and accordingly, is not acting for any recipient of this document and will not be responsible to any person other than the Company for the protections afforded to customers of Beaumont Cornish or for providing advice on the contents of this document or any translation or arrangement referred to herein.

Application has been made to the London Stock Exchange for the New Ordinary Shares to be issued pursuant to the Rights Issue and Subscription to be admitted to the Official List. The existing Ordinary Shares are already admitted to the Official List. The Rights Issue and Subscription are conditional, *inter alia*, on Admission. It is anticipated that Admission to the Official List will become effective and that dealings in the New Ordinary Shares, nil paid will commence on 17 November 1999.

The Directors of the Company, whose names appear on page 6 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Middlesex Holdings plc

hard Owen (Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 1816510)

Proposed purchase of the minority interest in Revenant Limited and of the minority interests in Middlesex OEMK plc

ARDAVAN FARHAD MOSHIRI
21.10.99

Proposed disposal of interest in OEMK

JOHN PHILIP ANTHONY WOLFF
21.10.99

Proposed underwritten Rights Issue of 135,067,706 Rights Issue Shares of 0.25p each at 0.75p per share

IAN FALCONER
21.10.99

Proposed Subscription for cash of up to 135,067,706 Subscription Shares of 0.25p each at 0.75p per share

Interim results for the six months ended 30 June 1999

Notice of Extraordinary General Meeting

The New Ordinary Shares and the Provisional Allotment Letter have not been and will not be registered under the United States Securities Act 1933, as amended, or under the securities legislation of any state of the United States of America or any securities legislation of Canada or Australia and, accordingly, subject to certain exceptions, they may not directly or indirectly be offered or sold within the United States of America, Canada or Australia or offered, sold or renounced in favour of or to a person within the United States of America, or a resident of Canada or Australia. Shareholders who have registered addresses in, or are citizens or residents of, countries other than the United Kingdom are referred to paragraph 6 of Part 2 of this document.

The latest time and date for acceptance and payment under the Rights Issue is expected to be 3.00 p.m. on 7 December 1999. The procedure for acceptance and payment is set out in paragraph 4 of Part 2 of this document and also in the Provisional Allotment Letter which is expected to be posted to Qualifying Shareholders on 16 November 1999 accompanying this document.

Notice of an Extraordinary General Meeting of Middlesex Holdings plc, to be held at The Regents Park Marriott Hotel, 128 King Henry's Road, London NW3 3ST at 10.00 a.m. on 16 November 1999 is set out at the end of this document.

A Form of Proxy for use by Shareholders in connection with the Extraordinary General Meeting is enclosed and, to be valid must be properly completed and returned so as to be received by the Registrars of Middlesex Holdings plc, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, as soon as possible but in any event not later than 10.00 a.m. on 14 November 1999, or 48 hours before any adjournment of the meeting.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	1999
Record Date for the Rights Issue	9 November
Latest time and date for receipt of completed Forms of Proxy	10.00 a.m. on 14 November
Extraordinary General Meeting	16 November
Provisional Allotment Letters to be despatched	16 November
Dealings expected to commence in the Rights Issue Shares, nil paid	17 November
Latest time and date for splitting the Rights Issue Shares, nil paid or fully paid	3.00 p.m. on 3 December
Latest time and date for registration of renunciation, nil paid or fully paid	3.00 p.m. on 3 December
Latest time and date for acceptance and payment in full	3.00 p.m. on 7 December
Dealings in New Ordinary Shares fully paid expected to commence	8 December
Definitive certificates for New Ordinary Shares expected to be despatched	21 December

DEFINITIONS

In this document, the accompanying Form of Proxy and the Provisional Allotment Letter which is to be despatched following the EGM, the following words and expressions shall, unless the context otherwise requires, have the following meanings:

“Act”	The Companies Act 1985 as amended by the Companies Act 1989 and any orders, regulations or subordinate legislation made thereunder from time to time in force including any modification or re-enactment thereof for the time being in force
“Admission”	The admission of the New Ordinary Shares to the Official List becoming effective in accordance with paragraph 7.1 of the Listing Rules of the London Stock Exchange
“Articles of Association”	The Articles of Association of the Company
“Beaumont Cornish”	Beaumont Cornish Limited, which is regulated by The Securities and Futures Authority Limited
“Board” or “Directors”	Directors of the Company whose names are set out on page 6 of this document
“Call Option”	The call option to be granted to Middlesex by Sir David Alliance over the OEMK Shares pursuant to the Settlement Deed
“Code”	The City Code on Takeovers and Mergers
“Company” or “Middlesex”	Middlesex Holdings plc
“DRI”	Direct reduced iron
“EGM” or “Extraordinary General Meeting”	The extraordinary general meeting of the Company to be held on 16 November 1999, notice of which is set out at the end of this document
“Form of Proxy”	The form of proxy for use in the EGM which accompanies this document
“Group”	The Company, its Subsidiaries and associated companies
“HBI”	Hot bricketted iron
“Hichens”	Hichens Harrison & Co. plc, a member of the London Stock Exchange and regulated by The Securities and Futures Authority Limited
“Issue Price”	0.75p per New Ordinary Share being offered pursuant to the Rights Issue and Subscription
“Lebedinsky”	Lebedinsky GOK
“LebGOK”	LebGOK Trading AG, a company incorporated in Switzerland controlled by Lebedinsky.
“Listing Rules”	The listing rules of the London Stock Exchange
“London Stock Exchange”	the London Stock Exchange Limited
“Middlesex Group”	The Company and its subsidiaries
“Middlesex OEMK”	Middlesex OEMK plc
“Middlesex OEMK Group”	Middlesex OEMK and its 100 per cent. owned subsidiary Oskmet (UK) Limited
“Middlesex OEMK Shareholders’ Agreement”	The shareholders’ agreement dated 26 January 1996, and made between (1) Middlesex (2) Balli Trading Limited (3) Sir David Alliance (4) Middlesex OEMK, as amended by a supplemental agreement dated 5 February 1996 and made between the same parties and a further supplemental agreement dated 4 December 1997 and made between the same parties and Oskmet (UK) Limited and Oskmet relating to the affairs of Middlesex OEMK

“New Ordinary Shares”	The new Ordinary Shares of 0.25p each to be issued pursuant to the Rights Issue and Subscription comprising the Rights Issue Shares and the Subscription Shares
“OEMK”	Oskol Electrometallurgical Kombinat, a joint stock company incorporated in Russia
“OEMK Shares”	221,828 shares of 1,000 roubles each in the capital of OEMK representing as at 20 October 1999, 5.2 per cent. of the entire issued share capital of OEMK and held by Revenant at the date of this Circular
“Official List”	The Official List of the London Stock Exchange
“Option”	The Call Option or Put Option, as the case may be
“Option Minimum Exercise Price”	US\$31.50 per OEMK share
“Ordinary Shares”	The ordinary shares of 0.25p each in the share capital of the Company
“Oskmet”	Oskmet AG (formerly Oskmet SA), a company incorporated in Switzerland controlled by OEMK
“Overseas Shareholders”	The holders of Ordinary Shares with registered addresses outside the United Kingdom or who are citizens or residents of countries other than the United Kingdom and have not given the Company an address in the United Kingdom for service of notices to them
“Proposals”	The Rights Issue and Subscription and the Transactions
“Provisional Allotment Letter”	The renounceable provisional allotment letters expected to be despatched to Qualifying Shareholders on 16 November 1999 in respect of the Rights Issue Shares to be provisionally allotted to them pursuant to the Rights Issue
“Put Option”	The put option to be granted to Sir David Alliance by Middlesex over the OEMK Shares pursuant to the Settlement Deed
“Qualifying Shareholders”	Holders of Ordinary Shares on the register of members of Middlesex on the Record Date, subject to the provisions of Part 2 of this document
“Record Date”	9 November 1999
“Resolutions”	The ordinary and special resolutions to be proposed at the EGM
“Revenant”	Revenant Limited
“Revenant Loan Notes”	The US\$7,000,000 and US\$4,000,000 loan notes issued by Revenant to Sir David Alliance and Middlesex, respectively, pursuant to the Revenant Loan Note Instrument
“Revenant Loan Note Instrument”	The loan note instrument dated 20 October, 1995 issued by Revenant constituting US\$11,000,000 8% unsecured loan notes
“Revenant Shareholders’ Agreement”	The shareholders’ agreement dated 19 October, 1995, and made between (1) Middlesex (2) Sir David Alliance and (3) Revenant relating to the affairs of Revenant
“Rights Issue”	The proposed offer and issue by way of rights by the Company to Qualifying Shareholders of the Rights Issue Shares as described in this document
“Rights Issue Shares”	The 135,067,706 New Ordinary Shares the subject of the Rights Issue
“Russia”	The Russian Federation
“Russian Bourse”	The exchanges for the conduct of activities in the securities market which have been duly licensed for such activities by the Federal Commission for the Securities Market of Russia in accordance with Russian law

“Settlement Deed”	The deed dated 21 October 1999 and made between (1) Middlesex (2) Sir David Alliance (3) Revenant (4) Middlesex OEMK and (5) Oskmet (as described in Part 3 of this document)
“Share Option Schemes”	The Executive Share Incentive Scheme, the Employee Share Incentive Scheme and the Executive Share Option Scheme (details of which are set out in paragraph 11 of Part 7 of this document)
“Shareholders”	Holders of Ordinary Shares
“Subsidiary”	Shall have the same meaning as defined in section 736 of the Act
“Subscription”	The conditional subscription by Oskmet and LebGOK for the Subscription Shares at the Issue Price subject to the terms of the Subscription Agreements
“Subscription Agreements”	The conditional subscription agreements dated 24 September 1999 entered into between the Company and Oskmet and the Company and LebGOK respectively (as described in paragraphs 13(a)(ix) and (x) of Part 7 of this document)
“Subscription Deposit”	The aggregate sum of £1,013,008 made available by way of a deposit of £506,504 from each of Oskmet and LebGOK pursuant to the Subscription Agreements
“Subscription Shares”	Up to 135,067,706 New Ordinary Shares the subject of the Subscription to the extent that the Subscription Deposit is not utilised in subscribing for Rights Issue Shares
“Transactions”	<p>The proposed transactions to be entered into subject to and upon the terms and conditions set out in the Settlement Deed:</p> <ul style="list-style-type: none"> (a) the repayment of Sir David Alliance’s Revenant Loan Notes by a transfer by Revenant of the OEMK Shares; (b) the acquisition by Middlesex of Sir David Alliance’s entire minority holding of 40 per cent. in Revenant for US\$1 consideration; (c) the grant by Middlesex of the Put Option to Sir David Alliance and the grant by Sir David Alliance of the Call Option to Middlesex; (d) the acquisition by Middlesex at par of the entire minority holdings of 24.5 per cent. in Middlesex OEMK of each of Sir David Alliance and Oskmet respectively; and (e) the issue of the Warrants to Sir David Alliance and Oskmet.
“Warrant Exercise Amount”	The amount payable on exercise of the Warrants being 1.5p per Ordinary Share
“Warrant Instrument”	The warrant instrument to be executed by the Company in the agreed form
“Warrants”	The aggregate number of 40,000,000 warrants to be issued to Sir David Alliance and Oskmet entitling the holders to subscribe in each case for one Ordinary Share

Interpretation

References in this document to: “£” are to pounds sterling “US\$” are to US Dollars.

Save as otherwise stated an exchange rate of £1:US\$1.67, being the rate prevailing on 19 October 1999, has been used in this document.

DIRECTORS AND ADVISERS

Directors

The Rt Hon the Lord Owen of the City of Plymouth, CH
(Executive Chairman)
Ardavan Farhad Moshiri, FCCA *(Chief Executive)*
Ian Falconer, CA (SA) *(Finance Director)*
Alexei Alexseevich Ugarov *(Executive Director)*
James Glynn West, FCA *(Non-executive Director)*
John Philip Anthony Wolff *(Non-executive Director)*
Ian Peter Spratling, OBE *(Non-executive Director)*
all of
Fifth Floor
100 Avenue Road
London NW3 3HF

Company Secretary and Registered Office

Jeremy Gorman, FCA
Fifth Floor
100 Avenue Road
London NW3 3HF

Financial Advisers

Beaumont Cornish Limited
63 Coleman Street
London EC2R 5BB

Stockbrokers

Hichens, Harrison & Co., plc
Bell Court House
11 Blomfield Street
London EC2M 1LB

Auditors

Deloitte & Touche
Chartered Accountants and Registered Auditors
Hill House
1 Little New Street
London EC4A 3TR

Solicitors to the Company

Watson, Farley & Williams
15 Appold Street
London EC2A 2HB

Registrars

IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

PART 1 – LETTER FROM THE CHAIRMAN OF MIDDLESEX

MIDDLESEX HOLDINGS plc

(Registered in England and Wales with Registered No. 1816510)

Directors

The Rt Hon the Lord Owen of the City of Plymouth, CH
(Executive Chairman)

Ardavan Farhad Moshiri, FCCA *(Chief Executive)*

Ian Falconer, CA (SA) *(Finance Director)*

Alexei Alexseevich Ugarov *(Executive Director)*

James Glynn West, FCA *(Non-executive Director)*

John Philip Anthony Wolff *(Non-executive Director)*

Ian Peter Spratling, OBE *(Non-executive Director)*

Registered and Head Office

Fifth Floor
100 Avenue Road
London NW3 3HF

21 October 1999

To Shareholders and, for information only, to participants in the Share Option Schemes

Dear Shareholder

**PROPOSED PURCHASE OF THE MINORITY INTEREST IN REVENANT AND
PURCHASE OF THE MINORITY INTERESTS IN MIDDLESEX OEMK AND
PROPOSED RIGHTS ISSUE AND SUBSCRIPTION**

1. Introduction

The Board of Middlesex today announced that a conditional agreement had been entered into relating to the reorganisation of the existing shareholdings in Revenant and Middlesex OEMK, two of the Company's subsidiaries. In addition, the Board announced today that the Company proposes to raise a minimum of £1 million, before expenses, through a one for six Rights Issue of up to 135,067,706 Rights Issue Shares at 0.75p per share with a conditional Subscription at the Issue Price by the underwriters of the Rights Issue to ensure that their Subscription Deposit provided in connection with underwriting the Rights Issue is fully utilised. In the event that the Rights Issue were to be fully subscribed, the maximum amount which could be raised by way of the Rights Issue and Subscription increases to £2 million before expenses. The net proceeds of the Rights Issue and the Subscription will be used to finance the Transactions and for working capital purposes.

The purpose of this document is to provide you with details of the Proposals which comprise the Transactions, together with details of the Rights Issue and Subscription. The various elements of the Proposals are interconditional, and subject to the approval of Shareholders at the EGM for the following reasons:

- the proposed acquisitions by the Company of the minority interests of Sir David Alliance in Revenant and Middlesex OEMK and the proposed disposal to Sir David Alliance by Revenant of 5.2 per cent. of the equity in OEMK currently held by Revenant require the approval of Shareholders because Sir David Alliance is a related party (as defined in the Listing Rules) of Middlesex by reason of his interest in each of Revenant and Middlesex OEMK;
- the proposed acquisition by the Company of the minority interests of Oskmet in Middlesex OEMK requires the approval of Shareholders because Oskmet is a related party (as defined in the Listing Rules) of Middlesex by reason of Oskmet's interest in Middlesex OEMK;
- the proposed subscription by Oskmet for up to 67,533,853 Subscription Shares at the Issue Price requires the approval of Shareholders because Oskmet is a related party (as defined in the Listing Rules) by

reason of its interest in Middlesex OEMK and as an issue and subscription for cash under the Listing Rules; and

- the proposed subscription by LebGOK for up to 67,533,853 Subscription Shares at the Issue Price requires the approval of Shareholders as an issue and subscription for cash under the Listing Rules.

In addition, each of the elements comprising the Transactions requires the approval of Shareholders because of its significant size as classified under the Listing Rules (either on its own or by way of aggregation with the others) in proportion to the size of the Group itself.

The Proposals comprise:

(i) *Reorganisation of Revenant and Middlesex OEMK*

The Directors believe that Shareholders and potential investors would understand more clearly the operations and strategy of the Group if the existing corporate structure of the Group were to be simplified through the elimination of the minority interests in each of Revenant and Middlesex OEMK. Middlesex is obliged, in accordance with generally accepted accounting principles, to consolidate the assets of Revenant in full as Middlesex has a 60 per cent. controlling shareholding. The consolidated balance sheet of the Group incorporates a holding of 14.5 per cent. in OEMK. Since the shares in OEMK are held by Revenant, effectively, only 8.7 per cent. of the holding in OEMK is attributable to Middlesex and its Shareholders. Further, the Group's consolidated profit and loss account and balance sheet include 100 per cent. of the trading activity, assets and liabilities of Middlesex OEMK, although only 51 per cent. is attributable to Middlesex and its Shareholders.

The Transactions for which your approval is being sought in this document further implement the strategic review undertaken by the Directors last year, when it was decided to focus on the Group's key steel trading and financial services activities. The result of the Transactions, to be financed in part by the Rights Issue and Subscription, will be to make Middlesex OEMK and Revenant wholly-owned subsidiaries of the Group and to bring to an end the Group's joint venture relationship with Sir David Alliance (although he currently owns 3.2 per cent. of the Ordinary Shares of Middlesex and has indicated to the Company that he intends to take up his rights in the Rights Issue).

(ii) *Rights Issue and Subscription*

Middlesex proposes to raise a minimum of £800,000, net of expenses, by way of the Rights Issue of 135,067,706 New Ordinary Shares at 0.75p per share. All Qualifying Shareholders who wish to participate in the financing of the Company are being given the opportunity to do so through the Rights Issue. The Rights Issue is being made on the basis of one New Ordinary Share for every six Ordinary Shares held at the Record Date. Qualifying Shareholders are invited to subscribe up to 135,067,706 New Ordinary Shares at 0.75p per share on this basis.

Under the terms of the Subscription Agreements, Oskmet and LebGOK have agreed to underwrite the Rights Issue fully by taking up any Rights Issue Shares not accepted by the Qualifying Shareholders. Furthermore, in the event that the Subscription Deposit is not fully utilised in taking up such Rights Issue Shares, Oskmet and LebGOK have agreed to subscribe for such number of Subscription Shares at the Issue Price, rounded down to the nearest round number, that utilises any balance of the Subscription Deposit. Accordingly, in the event that the Rights Issue were to be fully subscribed by Qualifying Shareholders, the effect would be to increase the maximum amount which could be raised, net of expenses, by way of the Rights Issue and Subscription to approximately £1,800,000.

OEMK is a modern Russian plant, which is already the Group's principal supplier for the export of steel and DRI. Middlesex hopes to apply the same model to Lebedinsky and that the plant will become the Group's principal supplier of Russian HBI and iron ore. Since OEMK controls Oskmet and Lebedinsky controls LebGOK, it is hoped that the significant mutual benefits of having subsidiaries of our suppliers as Shareholders will benefit the Group and its Shareholders as a whole.

This document also explains why your Board considers that the Proposals are in the best interests of the Company and Shareholders as a whole and sets out the recommendation of the Board that you vote in favour of the Resolutions to be proposed at the EGM.

The Board also announced today the interim results of the Company for the six months ended 30 June 1999, the text of which is set out in Part 6 of this document.

2. The Transactions

(i) *Revenant*

In October 1995, Revenant Limited was established as a joint venture between the Company and Sir David Alliance in order to carry out export steel trading activities on behalf of OEMK. Middlesex subscribed US\$15,000 and Sir David Alliance US\$10,000, representing 60 and 40 per cent. respectively, of the issued share capital of Revenant. In order to finance the anticipated steel trading activities of Revenant, Revenant's shareholders agreed to provide shareholders' loans totalling US\$11 million pursuant to the Revenant Loan Note Instrument split between Middlesex and Sir David Alliance in amounts of US\$4 million and US\$7 million, respectively. The affairs of Revenant and the relationship between Middlesex and Sir David Alliance are governed by the Revenant Shareholders' Agreement, which provides for the payment of dividends and interest on the Revenant Loan Notes and management fees to be paid to Middlesex in respect of export steel trading.

However, the export steel trading activities of OEMK were subsequently carried out by Middlesex OEMK, another joint venture company in the Group. Since the funds made available pursuant to the Revenant Loan Notes were no longer required to finance the anticipated OEMK trading activity, they were used together with further loans as at 31 December 1998 of US\$8,277,328 from Middlesex (and its wholly-owned subsidiary, Portsmouth Metals Limited) and Revenant's retained profits to acquire an equity stake of 14.5 per cent. in the issued share capital of OEMK. Since the year ended 31 December 1996, Revenant's sole activity has been to hold this investment in OEMK. Interest on the Revenant Loan Notes has been accrued in the Revenant accounts but has not been paid. It is therefore proposed that the Revenant Shareholder's Agreement, which has effectively been redundant since Revenant ceased to be a trading company, be terminated simultaneously with the completion of the other Transactions described in this document.

The consideration for the cancellation of Sir David Alliance's loan to Revenant is 221,828 OEMK Shares representing 5.2 per cent. of the entire issued share capital of OEMK. This is in proportion to the financial contribution he has made towards their acquisition. The principal amount of US\$7,000,000 contributed by Sir David Alliance represents 35.9 per cent. of the total consideration of US\$19,500,000 used to acquire Revenant's entire holding of 618,560 shares representing 14.5 per cent. of the equity in OEMK, at an average price of US\$31.50 per share. This is also the value at which the shareholding in OEMK is carried in the consolidated accounts of Middlesex. Furthermore, Sir David Alliance has undertaken to transfer his 40 per cent. interest in Revenant to Middlesex for a nominal consideration of US\$1.

Sir David Alliance has agreed to grant Middlesex the Call Option, which gives Middlesex the right to buy back the OEMK Shares at a Option Minimum Exercise Price (US\$31.50 per share) at any time within three years from the date of approval of the Transactions. Middlesex has also agreed to grant Sir David Alliance the Put Option which gives him the right to require Middlesex to buy back the OEMK Shares at the Option Minimum Exercise Price in the 60 day period following the expiry of the Call Option exercise period.

In addition to the Option Minimum Exercise Price, in the event that the share price of OEMK Shares offered by market makers on the Russian Bourse in the period of 30 trading days prior to the exercise of the Option is in excess of the Option Minimum Exercise Price, Sir David Alliance will be entitled to 50 per cent. of the difference per share over the Option Minimum Exercise Price up to a maximum amount of US\$43.50 per OEMK share. Sir David Alliance will also be entitled to a further 50 per cent. share in the gains over any such amount realised by Middlesex on any subsequent disposal of the OEMK Shares in the period of twelve months following the date of exercise of the Option over the Option Minimum Exercise Price up to a maximum amount of US\$43.50 per OEMK share. Under these arrangements the maximum aggregate liability to Sir David Alliance shall not exceed US\$75 per OEMK Share.

Under the terms of the Settlement Deed, Middlesex has agreed that it will not dispose of or pledge in any manner whatsoever the whole or part of its equity shareholding in Afon Tinplate Company Limited, without the prior written approval of Sir David Alliance. This undertaking will continue until the date which is the first anniversary of the exercise of the Option, but shall not apply in the event that Middlesex wishes to sell the whole or part of its shareholding in Afon Tinplate Company Limited to facilitate payment to Sir David Alliance following the exercise of the Option.

Shareholders should be aware that to enable the Company either to exercise the Call Option or to meet its obligations under the exercise of the Put Option, the Company may be required to sell its interest in Afon Tinplate Company Limited or to raise funds by other means. Further details of the Option are set out in Part 3 of this document.

As at December 1998 Revenant had audited net liabilities of US\$1.2 million (1997: US\$0.3 million) and an audited retained loss of US\$1.3 million (1997: US\$0.4 million). Revenant's only asset is its shares in OEMK and its liabilities consist of the shareholders' loans, interest accruals on part of these loans and dividends declared but unpaid. Except for its first accounting period to 31 December 1996 when Revenant reported a profit, Revenant has subsequently recorded a loss after taxation consistently and has net liabilities because of the interest accrual on the shareholders' loans. Upon completion of the Transactions, the interest accrual on Sir David Alliance's Revenant Loan Notes and his share of the dividends declared but unpaid will be written back in the accounts of Revenant.

Following completion of the above transaction involving Revenant, Middlesex will continue to hold 9.3 per cent. of OEMK's entire issued share capital.

The Directors consider that the value to the Company of the various arrangements with Sir David Alliance as set out above justifies the amounts to be received and paid by the Company under such arrangements.

(ii) Middlesex OEMK

Middlesex OEMK through its 100 per cent. subsidiary, Oskmet (UK) Limited, carries out all the Group's steel trading activity with OEMK, excluding DRI trades, which are carried out by Oskmet (DRI) Limited, a wholly owned subsidiary of Middlesex. Oskmet (UK) Limited holds a worldwide trading agreement with OEMK for the sale of OEMK steel to countries outside the former Soviet Union. The New OEMK/Middlesex Agreement which commenced on 28 May 1998 and runs for an initial period of five years, includes an option for the agreement to be extended for a further three years (as described more fully in paragraph 13(a)(v) of Part 7 of this document).

Middlesex OEMK has an issued share capital comprising 10,000,000 ordinary shares of US\$1 each and 50,000 'A' ordinary shares of £1 each. Middlesex currently owns 51 per cent. of the issued ordinary share capital of US\$10 million of Middlesex OEMK, the remaining ordinary shares of US\$1 each being held equally by Sir David Alliance and Oskmet. Oskmet is the Swiss subsidiary of OEMK, which operated as OEMK's principal international trading arm until Oskmet (UK) Limited took over this role in 1996. Oskmet holds 100 per cent. of the 50,000 'A' ordinary shares of £1 each, which are entitled to 10 per cent. of Middlesex OEMK's net profit after tax. In all other respects the 'A' ordinary shares of £1 each rank *pari passu* with the ordinary shares of US\$1 each. The Directors consider that it would be beneficial to the Group to acquire the interests of the two minority shareholders so that Middlesex OEMK becomes a wholly-owned subsidiary of the Group. Under the terms of the Settlement Deed, Middlesex has agreed to purchase each of Sir David Alliance's and Oskmet's holdings of 2,450,000 ordinary shares of US\$ 1 each at par value (representing 24.5 per cent. of the ordinary share capital in each case) and further acquire at par 50,000 'A' ordinary shares of £1 each from Oskmet.

The consideration for Sir David Alliance's shares in Middlesex OEMK will be paid in two equal instalments, the first due on 30 November 1999 and the second on 31 May 2000. Payment for Oskmet's ordinary and 'A' ordinary shares will be made by way of settlement of an amount equal to the par value of the shares, being the sum of US\$ 2,450,000 and £50,000 from the existing debt which Oskmet owes to Middlesex.

In addition, as further consideration for the purchase of the minority interests in Middlesex OEMK, Middlesex has agreed to issue 20,000,000 Warrants to each of Sir David Alliance and Oskmet. Further details of the Settlement Deed and the Warrants are set out in Part 3 of this document.

As at 31 December 1998, Middlesex OEMK Group had audited net assets of US\$11.1 million (1997: US\$10.3 million) and accumulated profits of US\$1.1 million (1997: US\$0.2 million). In the year ended 31 December 1998, Middlesex OEMK Group had audited turnover of US\$116.8 million (1997: US\$196.3 million), a profit before taxation of US\$1.5 million (1997: US\$5.3 million) and a profit after taxation of US\$0.9 million (1997: US\$3.6 million). As shown in the audited accounts of Middlesex OEMK Group for the year ended 31 December 1998, Middlesex OEMK Group's profitability for this year was affected by an exceptional charge of US\$1.1 million as well as being affected by the depressed state of the world steel market.

The Directors consider that the value to the Company of the Middlesex OEMK shares being purchased under the above arrangements justifies the price being paid.

(iii) Financial Effects of the Transactions

As both Revenant and Middlesex OEMK have been and will continue to be consolidated, the acquisition of the minority interests in these Companies will not in itself affect the reported profit on ordinary activities.

However, earnings will no longer be subject to a deduction for the minority interests in these Subsidiaries. The cancellation of the loans owed to Sir David Alliance will, from completion, reduce the interest burden on the Group. The waiver by Sir David Alliance of all amounts of accrued but unpaid interest on his Revenant Loan Note, and declared but unpaid dividends owed to him by Revenant will result in a surplus which will be reflected in the profit and loss account for the current year.

3. Background and reason for the Rights Issue and the Subscription

Middlesex has undergone a number of fundamental changes over the last two years in order to focus on the Group's core steel and iron businesses and financial services. As part of the Board's strategy to expand its trading activities it has already announced that it has been in discussions with Lebedinsky regarding a new source of trading income derived from a worldwide trading agreement. Middlesex has had a 2 per cent. equity stake in Lebedinsky since July 1998. Lebedinsky supplies OEMK with iron ore along a 27 kilometre pipeline. It is the largest Russian iron ore mine and one of the richest iron ore deposits in the world. It is in the process of commissioning a new HBI unit which will augment Middlesex's current DRI trading on behalf of OEMK. Trading with Lebedinsky is expected to commence in the last quarter of this year and the full details will be announced nearer the time.

The Swiss subsidiaries of OEMK and Lebedinsky, being controlled by OEMK in the case of Oskmet and wholly owned by Lebedinsky in the case of LebGOK, wish to invest in Middlesex to provide them with a greater economic interest in Middlesex. The Directors believe that these arrangements are beneficial to the interests of the Company and its Shareholders as a whole.

Rights Issue Shares are being made available to the existing Shareholders of Middlesex in the form of an underwritten Rights Issue. In addition, to the extent that LebGOK's and Oskmet's funds are not required to underwrite the Rights Issue Shares, such funds will be made available to the Company in the form of a subscription for the Subscription Shares, thus increasing the funds available to the Group.

The Issue Price for both the Rights Issue and the Subscription has been set in the context of the recent volatility in the price of the Company's Ordinary Shares (varying between 1/2p and 2 1/2p since the start of 1999 and 1.71p as at 20 October 1999, the latest practical date prior to the printing of this document) and the present market perception of quoted companies which have business interests in emerging markets such as Russia.

Shareholders should also note that both the Rights Issue and the Subscription are subject to Shareholder approval.

The net proceeds of the Rights Issue and the Subscription, amounting to a minimum of £800,000 will be used to assist the finance of the Transactions, and for working capital purposes. Your Board considers that the current size of the Group's capital base, together with the Group's current level of borrowings, restricts its ability to expand and to develop further the potential of its trading agreements. Your Board therefore considers it appropriate to strengthen shareholders' funds through an issue of New Ordinary Shares.

The Rights Issue and the Subscription will not proceed if the Resolution to approve the Settlement Deed is not approved (Resolution 1 in the Notice of the Extraordinary General Meeting).

Following completion of the Rights Issue and Subscription, Oskmet and LebGOK will each own 67,533,853 New Ordinary Shares representing 7.1 per cent. of the enlarged issued share capital of the Company (assuming the take up of Rights Issue Shares by the Executive Directors (not including Mr Ugarov) and Sir David Alliance).

The Company is aware also of a claim by OEMK over 78,200,000 shares held by Joint Stock Company Imperial Bank of Moscow. Notwithstanding the above, the Directors have structured the Rights Issue and Subscription to ensure that Oskmet and LebGOK, (together with their respective holding companies and other parties connected with them) cannot subscribe for such number of Ordinary Shares whereby together they would hold in excess of 29.9 per cent. of voting rights of the enlarged issued share capital of the Company. Pursuant to the terms of the Settlement Deed Oskmet has agreed not to exercise its Warrants in circumstances where any concert party of which it is a member (together with its holding company and other connected parties) will following such exercise be entitled to exercise voting rights in respect of more than 29.9 per cent. of the then issued share capital of the Company.

Under the terms of the Subscription Agreements, Oskmet and LebGOK have agreed not to dispose of their respective shareholdings which arise under such agreements for a period of three years, save with the consent of the Company's stockbrokers.

4. Financial Information on the Group

Financial information relating to the Group is set out in Part 5 of the document. In addition, the interim results of the Group for the six months ended 30 June, 1999 are set out in Part 6.

5. Current Trading and Future Prospects

The Interim Results of the Group for the six months ended 30 June 1999, which are set out in Part 6 of this document include a commentary on current trading and prospects of the Group.

Following implementation of the Proposals, Middlesex will have increased its interest in its steel trading company, Middlesex OEMK, from 51 per cent. to 100 per cent. This change to an extent balances the Group's agreement to reduce the commission on steel trading with OEMK pursuant to an amendment dated 13 October 1999 to the New OEMK/Middlesex Agreement (described more fully in paragraph 13(a)(v) of Part 7 of this document). As referred to above, Middlesex is expecting to commence trading HBI produced by Lebedinsky in the last quarter of this year and the Directors believe that this will provide an additional source of revenue for the Group. Financial services income will rely, as in previous years, on individual projects as they arise.

6. Details of the Rights Issue and the Subscription

Middlesex is proposing to raise a minimum of approximately £1,000,000 (before expenses) by way of a Rights Issue to Qualifying Shareholders of up to 135,067,706 Rights Issue Shares for subscription by way of rights at a price of 0.75p per Ordinary Share, payable in full on application, free from all commissions and expenses on the following basis:

1 Rights Issue Share for every 6 Ordinary Shares

held at the close of business on the Record Date, and so in proportion for any greater number of Ordinary Shares. Fractions of Rights Issue Shares have not been allotted. Where necessary, Qualifying Shareholders' entitlements have been rounded down to the nearest whole number of Rights Issue Shares. The allotment and issue of the Rights Issue Shares will be made subject to the terms and conditions set out in Part 2 of this document and in the Provisional Allotment Letters which are expected to be despatched on 16 November 1999.

Under the terms of the Subscription Agreement, the Rights Issue is fully underwritten by Oskmet and LebGOK. Oskmet and LebGOK have, between them, agreed to take up any Rights Issue Shares not accepted by Qualifying Shareholders in the Rights Issue. In the event that the Subscription Deposit is not fully utilised in taking up such Rights Issue Shares, they have agreed to subscribe for such number of Subscription Shares at the Issue Price, rounded down to the nearest round number, that utilises any balance of the Subscription Deposit, being up to a maximum of 135,067,706 Subscription Shares. If all Qualifying Shareholders take up their Rights Issue Shares, 270,135,412 New Ordinary Shares shall have been issued pursuant to the Rights Issue and Subscription to raise approximately £2,000,000 before expenses. Further details of the Subscription Agreements are set out in paragraph 13(a)(ix) and (x) of Part 7 of this document.

The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the Ordinary Shares now in issue, including the right to receive all dividends and other distributions hereafter declared, made or paid.

The Rights Issue and the Subscription are conditional, *inter alia*, upon:

- (a) the passing of the Resolutions at the Extraordinary General Meeting;
- (b) the Subscription Agreements becoming unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with their terms prior to Admission; and
- (c) Admission becoming effective by 8.00 a.m. on 17 November 1999, (or such later time and/or date as Beaumont Cornish may agree with the Company).

Further details regarding the terms and conditions of the Rights Issue are set out in Part 2 of this document and your attention is also drawn to the additional information set out in Part 7.

It is expected that the Provisional Allotment Letters will be posted to Qualifying Shareholders on 16 November 1999 following the Extraordinary General Meeting, and that Admission will become effective and dealings in the New Ordinary Shares will commence, nil paid, on the London Stock Exchange on 17 November 1999. The procedure for acceptance and payment, renunciation, splitting and registration is set out in Part 2 of this document.

If Qualifying Shareholders wish to take up their entitlement in whole or in part, the Provisional Allotment Letter, together with their remittance for the full amount of the subscription monies for the Rights Issue Shares they are taking up, should be lodged in accordance with the instructions printed thereon, by not later than 3.00 p.m. on 7 December 1999. Thereafter Qualifying Shareholders need take no further action. A share certificate in respect of the Rights Issue Shares for which they have subscribed is expected to be despatched by 21 December 1999.

7. Taxation

Information regarding United Kingdom taxation with regard to the Rights Issue is set out in paragraph 7 of Part 2 of this document. **If you are in any doubt as to your tax position, you should consult your financial adviser without delay.**

8. Overseas Shareholders

The attention of holders of Ordinary Shares who have registered addresses outside the United Kingdom, or who are citizens or residents of countries other than the United Kingdom, is drawn to paragraph 6 of Part 2 of this document, which sets out the restrictions applicable to them.

9. Year 2000

To ensure continuity of operations in the approaching new Millennium, the Group has reviewed all its computer and other business systems which have time sensitive programs that may not properly reflect or recognise the Year 2000. All such systems were purchased/leased in recent years and have been confirmed as Year 2000 compliant by the suppliers of the equipment and software. Expenditure on addressing Year 2000 issues has been, and is expected to remain, immaterial. OEMK has confirmed that all its computer and other business systems have been reviewed and that they are Year 2000 compliant. The Group has therefore completed its Year 2000 review and has been advised by its technical advisers that it is compliant. Your attention is drawn also to the Year 2000 risks associated with third parties set out in Part 4 of this document.

10. Extraordinary General Meeting

In order to confer on the Directors the necessary authorities and powers to effect the Transactions, the Rights Issue and the Subscription, an Extraordinary General Meeting has been convened. A notice convening this meeting, to be held at The Regents Park Marriott Hotel, 128 King Henry's Road, London NW3 3ST at 10.00 a.m. on 16 November 1999, is set out at the end of this document.

The Ordinary and Special Resolutions to be proposed at the EGM are required to approve the terms of, and implement, the Transactions, the Rights Issue and the Subscription. Resolutions will be proposed at the EGM to:

1. approve the Transactions in each case on the terms and conditions set out in the Settlement Deed and to approve execution and completion of the Settlement Deed in accordance with its terms;
2. approve the subscription by Oskmet for up to 67,533,853 Subscription Shares on the terms and conditions set out in the Subscription Agreement entered into between the Company and Oskmet and to authorise the Directors to execute and complete the subscription in accordance with the terms thereof;
3. approve the subscription by LebGOK for up to 67,533,853 Subscription Shares on the terms and conditions set out in the Subscription Agreement entered into between the Company and LebGOK and to authorise the Directors to execute and complete the subscription in accordance with the terms thereof;
4.
 - (a) increase the authorised share capital of the Company from £2,800,000 to £3,750,000 by the creation of 380,000,000 additional Ordinary Shares (representing an increase of 33.9 per cent. in the authorised share capital of the Company); and
 - (b) authorise the Directors pursuant to section 80 of the Act to allot relevant securities (as defined in section 80 of the Act) up to an aggregate nominal amount of £1,723,984.41; and
5. authorise the Directors pursuant to section 95 of the Act to allot equity securities for cash for the purposes, *inter alia*, of the Rights Issue, the Subscription, the issue of the Warrants and otherwise up to an aggregate nominal amount of £135,000.

Resolutions 4(b) and 5 will, if passed, replace the existing powers and authorities granted to the Directors at the last Annual General Meeting of the Company held on 31 August, 1999.

11. Action to be taken

Shareholders will find enclosed a Form of Proxy for use at the Extraordinary General Meeting. Whether or not you propose to attend the EGM personally, you are requested to complete and return the Form of Proxy in accordance with the instructions printed thereon. To be valid, the Form of Proxy for the Extraordinary General Meeting must be returned so as to arrive as soon as possible to IRG plc at Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU but in any event no later than 10.00 a.m. on 14 November 1999. The completion and return of a Form of Proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting if you so wish.

12. Recommendation

The Directors (other than Mr Ugarov, who has been excluded by reason of being an Executive Director of OEMK), who have been so advised by Beaumont Cornish, consider that the terms of the Proposals to be implemented pursuant to all of the Resolutions are fair and reasonable so far as the Shareholders of the Company are concerned. The Directors (other than Mr Ugarov) consider that the Proposals are in the best interests of the Company and Shareholders as a whole. In providing advice to the Directors, Beaumont Cornish have taken into account the Directors' (other than Mr Ugarov) commercial assessment of the Proposals. Accordingly, the Directors recommend that Shareholders vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting.

The Directors (other than Mr Ugarov) have irrevocably undertaken to vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting in respect of their own beneficial shareholdings which amount to 75,403,991 Ordinary Shares (representing approximately 9.3 per cent. of the current issued share capital of the Company). Because of their interests in the Transactions, Mr Ugarov and Sir David Alliance have agreed to abstain and have undertaken all reasonable steps to ensure their associates will abstain from voting on the Resolutions.

13. Directors' intentions

Executive Directors who between them own 23,605,874 Ordinary Shares, representing 2.9 per cent. of the existing issued Ordinary Shares, have irrevocably undertaken to take up a total of 3,934,312 Rights Issue Shares representing 100 per cent. of their entitlements under the Rights Issue.

14. Further information

Your attention is drawn to the risk factors set out in Part 4 and Parts 2, 3, 5, 6 and 7 of this document.

Yours faithfully

Lord Owen

Executive Chairman

PART 2 – FURTHER INFORMATION RELATING TO THE RIGHTS ISSUE AND SUBSCRIPTION

1. Proposed Rights Issue and Subscription

Your Chairman has explained in his letter in Part 1 of this document, *inter alia*, the proposed Rights Issue to raise a minimum of £1,000,000, before expenses, by the issue of the Rights Issue Shares at 0.75p each. LebGOK and Oskmet have agreed, pursuant to the Subscription Agreements to take up any Rights Issue Shares not accepted by the Qualifying Shareholders or otherwise taken up pursuant to the Rights Issue.

In the event that the Subscription Deposit is not fully utilised in taking up such Rights Issue Shares, Oskmet and LebGOK have agreed to subscribe for such number of Subscription Shares at the Issue Price, rounded down to the nearest whole number, that utilises any balance of the Subscription Deposit. The Rights Issue and the Subscription are subject to the Subscription Agreements becoming unconditional.

If all Qualifying Shareholders take up their Rights Issue Shares, 270,135,412 New Ordinary Shares shall have been issued by the Company pursuant to the Rights Issue and Subscription to raise approximately £2,000,000 before expenses.

2. The Rights Issue

Subject to the terms and conditions set out in this letter and in the accompanying Provisional Allotment Letter, the Company is proposing to offer up to 135,067,706 Rights Issue Shares by way of rights to Qualifying Shareholders (other than certain Overseas Shareholders) at a price of 0.75p per share, payable in full on acceptance, free from all commissions and expenses, on the following basis and otherwise as set out herein:

1 Rights Issue Share for every 6 existing Ordinary Shares

held by them at the close of business on the Record Date and so in proportion for any other number of Ordinary Shares then held.

Fractions of Rights Issue Shares will be disregarded for the purposes of calculating Qualifying Shareholders' entitlements under the Rights Issue and entitlements to fractions will be rounded down to the nearest whole number of Rights Issue Shares.

Application has been made to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List.

The Rights Issue and the Subscription are subject, *inter alia*, to satisfaction of the following conditions by not later than 31 December 1999:

- (i) the passing (without amendment) of the Resolutions at the Extraordinary General Meeting;
- (ii) the Subscription Agreements having become unconditional (save for the conditions relating to Admission) and not having been terminated in accordance with their terms; and
- (iii) Admission becoming effective by 8.00 a.m. on 17 November 1999 (or such later time and/or date as Beaumont Cornish may agree with the Company).

The Rights Issue Shares will, when allotted, form one class ranking *pari passu* in all respects with the existing Ordinary Shares now in issue, including the right to all dividends and other distributions declared, made or paid hereafter.

The attention of Qualifying Shareholders who have registered addresses outside the United Kingdom, or who are citizens or residents of countries other than the United Kingdom, is drawn to paragraph 6 below.

3. Subscription Agreements

Under the terms of the Subscription Agreements, each of LebGOK and Oskmet has agreed to place £506,504 on deposit with Middlesex for use in connection with the Rights Issue and Subscription. Such funds will be returned to LebGOK and Oskmet (with interest) in the event that the conditions relating to the Rights Issue and Subscription are not fulfilled by 31 December, 1999.

LebGOK and Oskmet have agreed, pursuant to the Subscription Agreements that the Subscription Deposit may be utilised to take up any Rights Issue Shares not accepted by the Qualifying Shareholders or otherwise taken up pursuant to the Rights Issue.

Furthermore, in the event that the Subscription Deposit is not fully utilised in taking up such Rights Issue Shares, Oskmet and LebGOK have agreed, subject to the satisfaction of the conditions relating to the Rights Issue and Subscription, to subscribe for such number of Subscription Shares at the Issue Price, rounded down to the nearest whole number, that utilises any balance of the Subscription Deposit.

4. Action to be taken

(i) Procedure for acceptance and payment

The Provisional Allotment Letter in respect of the Rights Issue Shares which accompanies this document sets out the holding of Ordinary Shares on which a Qualifying Shareholder's entitlement has been based, the aggregate number of Rights Issue Shares which such holder will have been provisionally allotted and the procedure to be followed if such holder wishes to dispose (whether before or after payment of the Issue Price) of all or part of their entitlement. The Provisional Allotment Letter will also include instructions regarding acceptance and payment, splitting and registration of renunciation. The allotment and issue of the Rights Issue Shares will be made upon, and will be subject to, the terms and conditions set out in this document and in the Provisional Allotment Letter.

All documents and remittances will be sent to or by allottees or their renouncers (or their agents) at the risk of such persons.

Persons who wish to take up their entitlement, in whole or in part, must return the Provisional Allotment Letter, together with a remittance for the full amount payable on acceptance, in accordance with the instructions printed thereon, by hand or by post to New Issues Department, IRG plc, at P.O. Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH telephone number 0181 639 2000 or by hand, only during office hours, to IRG plc, 23 Ironmonger Lane, London EC2, so as to be received not later than 3.00 p.m. on 7 December 1999. A first class reply-paid envelope will be enclosed with the Provisional Allotment Letter for the purpose of lodging the Provisional Allotment Letter by post.

The Company reserves the right (but shall not be obliged) to accept Provisional Allotment Letters and accompanying remittances which are received through the post not later than 3.00 p.m. on 7 December 1999 (the cover bearing a legible postmark not later than 3.00 p.m. on 6 December 1999); and (ii) applications in respect of which a remittance is received prior to 3.00 p.m. on 7 December 1999 from an authorised person (as defined in the Financial Services Act 1986) specifying the Rights Issue Shares concerned and undertaking to lodge the relevant Provisional Allotment Letter in due course.

The Company also reserves the right to treat a Provisional Allotment Letter as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it is not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required.

All payments must be made by cheque or bankers' draft in pounds sterling drawn on a bank or building society in the United Kingdom or the Channel Islands which is either a settlement member of the Cheque & Credit Clearing Company Limited or the CHAPS Clearing Company Limited which has arranged for its cheques and bankers' drafts to be cleared through the facilities provided for the members of those companies, and must bear the appropriate sort code in the top right hand corner. Cheques and bankers' drafts should be made payable to IRG plc re: Middlesex and crossed A/C Payee Only. No interest will be allowed on payments made. The Company reserves the right to present cheques and bankers' drafts for payment upon receipt and to instruct Beaumont Cornish to seek special clearance of cheques to allow the Company to obtain value for remittances at the earliest opportunity. Return of a Provisional Allotment Letter with a remittance in the form of a cheque will constitute a warranty by the person returning the Provisional Allotment Letter that the cheque will be honoured on first presentation. The Company may elect to treat as invalid acceptances in respect of which cheques are not so honoured.

All enquiries in connection with the Provisional Allotment Letters should be addressed to New Issues Department, IRG plc, at P.O. Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH, telephone number 0181 639 2000.

(ii) Money Laundering Regulations

It is a term of the Rights Issue that to ensure compliance with the Money Laundering Regulations 1993, IRG plc may, at its absolute discretion, require verification of identity from any person by whom or on whose behalf a Provisional Allotment Letter is lodged with payment (an "applicant").

If the value of an application exceeds £11,500 (or is one of a series of linked applications, the value of which exceeds that amount), IRG plc is entitled to require, at its absolute discretion, verification of the identity of the applicant if payment is settled by way of third party, e.g. banker's draft, building society cheque or a cheque drawn by someone other than the applicant. Return of a Provisional Allotment Letter with the appropriate remittance will constitute a warranty from the applicant that the Money Laundering Regulations 1993 will not be breached by the acceptance of the remittance and an undertaking from the applicant to provide verification of identity reasonably satisfactory to IRG plc, if so requested. **Failure to provide satisfactory evidence of identity, if requested to do so, may result in a delay in the return of a receipted fully paid Provisional Allotment Letter and the despatch of definitive share certificates in respect of Rights Issue Shares.** If within a reasonable period of time following a request for verification of identity, but in any event not later than 21 days from the date of request, IRG plc has not received evidence satisfactory to it as aforesaid the Company may, at its absolute discretion, either elect to treat as valid the relevant acceptance or to terminate the contract of allotment, in which event the money payable or paid in respect of the acceptance will be returned (without interest) to the account of the drawee bank or building society from which such sums were originally debited (but in each case without prejudice to any rights the Company may have to take proceedings to recover in respect of loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence as aforesaid).

Payments should ideally be made by a cheque drawn on the applicant's own account. In any other case (for example, if payment is made with a cheque drawn by a third party, a building society cheque or a banker's draft) applicants should:

- (a) write their name, address and date of birth on the back of the cheque or bankers' draft;
- (b) if a building society cheque or banker's draft is used, ask the building society or bank to endorse on the cheque or draft the name and account number of the person whose building society bank account is being debited, such endorsement being validated by a stamp and authorised signature; and
- (c) if the application is being made by the applicant as agent for one or more persons, indicate on the Provisional Allotment Letter whether the applicant is a United Kingdom or EC regulated person or institution.
- (d) if the Provisional Allotment Letter is delivered by hand, the person making payment should ensure that he has with him evidence of identity bearing his photograph (for example, a full valid passport).

The Company shall not be responsible or have any liability for loss or damage (whether actual or alleged) arising from the election by the Company to treat an acceptance in respect of Rights Issue Shares lodged by an applicant as invalid or to terminate the contract of allotment as a result of IRG plc not having received evidence as to the identity of the person lodging the relevant Provisional Allotment Letter satisfactory to it having requested such information within a reasonable time.

(iii) Dealings in nil paid rights

Dealings on the London Stock Exchange in the Rights Issue Shares are expected to commence, nil paid, on 17 November 1999. A transfer of such rights can be made by renunciation as described in sub-paragraph (v) below, without payment having been made for the Rights Issue Shares provisionally allotted, until 3.00 p.m. on 3 December 1999.

(iv) Dealings in fully paid rights

After acceptance of the provisional allotment and payment in full, in accordance with the provisions set out in sub-paragraphs 4(i) and 4(ii) above and the Provisional Allotment Letter, the fully paid rights to the Rights Issue Shares may be transferred by renunciation of the relevant Provisional Allotment Letter and delivery of the same to the transferee until 3 December 1999. Thereafter the Rights Issue Shares will be in registered form and will be transferable by instrument of transfer complying with the Company's Articles of Association or in any other written form which the Directors may approve. Pending the issue of the definitive share certificates, instruments of transfer will be certified against lodgement of fully paid Provisional Allotment Letters or against the registration application in the possession of IRG plc.

(v) Renunciation and splitting

A Qualifying Shareholder originally entitled to a provisional allotment of Rights Issue Shares who wishes to transfer all the Rights Issue Shares comprised in a Provisional Allotment Letter may renounce such allotment by completing and signing Form X on such letter and handing the entire letter to the transferee or to the broker or bank who is acting for such holder in the transaction. Once renounced, a Provisional Allotment Letter will become a negotiable instrument in bearer form. The latest time and date for registration of renunciation is 3.00 p.m. on 3 December 1999.

If a Qualifying Shareholder wishes to have some of such Rights Issue Shares registered in his name and to transfer the remainder, or wishes to transfer all the Rights Issue Shares but to different persons, he may have the letter split, for which purpose he must complete and sign Form X on such letter. The letter must then be lodged by post with IRG plc, at Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH, telephone number 0181 639 2000 not later than 3.00 p.m. on 3 December 1999, if nil paid or fully paid, to be cancelled and exchanged for the split letters required. The number of split letters required and the number of Rights Issue Shares to be comprised in each split letter should be stated in an accompanying letter. Form X on split letters will be marked "Original Duly Renounced" before issue.

(vi) Registration in names of persons other than Qualifying Shareholders originally entitled

The renouncer or his agent(s) must complete Form Y on the Provisional Allotment Letter and lodge the entire letter with IRG plc at either of the addresses set out above. Registration cannot be effected unless the letter is fully paid.

(vii) Share certificates

Definitive share certificates in respect of Rights Issue Shares are expected to be despatched by post by 21 December 1999. Following the despatch of definitive share certificates, Provisional Allotment Letters will cease to be valid for any purpose whatsoever.

5. Procedure in respect of rights not taken up

If Qualifying Shareholders do not wish to take up their entitlement, they do not need to take any action. If payment in full for an entitlement to Rights Issue Shares (whether from Qualifying Shareholders or any person in whose favour rights have been renounced) is not received by 3.00 p.m. on 7 December 1999, in accordance with the procedure laid down for acceptance and payment in this document and in the Provisional Allotment Letter, or such later time as may be permitted under paragraph 4(i), above, then that provisional allotment will be deemed to have been declined and will lapse. Hichens, as agent of the Company, will seek to procure subscribers for such Rights Issue Shares if a price at least equal to the aggregate of the issue price and the expenses of procuring subscribers (including any value added tax thereon) can be obtained. If subscribers for the Rights Issue Shares are procured on such a basis it will be a term of such subscription that any amount in excess of that sum shall be paid to the original provisional allottee, subject to the terms of this paragraph 5. Rights Issue Shares for which subscribers are procured on this basis will be reallocated to such subscribers at the issue price and the premium (being the amount paid by such subscribers after deducting the Issue Price and the expenses of procuring subscribers (including any value added tax thereon)) will be paid (without interest) to those provisional allottees who have not taken up their entitlements *pro rata* save that amounts of less than £3.00 will not be paid but will be aggregated and paid to the Company for its own benefit.

In order to allow the Company's Shareholders the best opportunity to obtain such a premium (after deducting the Issue Price and the expenses as described above) the usual period allowed for dealing with nil paid rights not subscribed will be extended as the Company may agree with Beaumont Cornish to a date no later than 31 January 2000. This period is to avoid any complications arising out of any disruption to markets and/or settlement systems in December and January. No commissions are payable to the underwriters in connection with the Rights Issue, and these arrangements will be put in place at no extra cost to the Company.

If at any time after midnight on 31 January 2000 (or such earlier time and/or date as the Company may agree with Beaumont Cornish) it is, in the opinion of Hichens, unlikely that subscribers can be procured on the basis described above, Hichens may (in its sole discretion) decide not to seek to procure subscribers for Rights Issue Shares which will otherwise be taken up by Oskmet and LebGOK.

Neither the Company nor Hichens nor any person procuring or seeking to procure such subscribers shall be responsible or have any liability for any loss or damage (whether actual or alleged) arising from the price at which any Rights Issue Shares are subscribed for or the terms or timing of any such subscription or the failure to procure such subscribers or the decision not to endeavour to procure such subscribers. Payments for the amount due (if any) will be sent by cheque, at the risk of the person entitled thereto to the first named or sole holder at his registered address.

6. Overseas Shareholders

(i) General

- (a) The offer by way of rights to persons who are resident in, or citizens of, countries other than the United Kingdom or the Republic of Ireland ("Overseas Shareholders") may be affected by the law of the relevant jurisdiction. No person receiving a copy of this document and/or a Provisional Allotment Letter in any jurisdiction other than the United Kingdom may treat the same as constituting an offer or invitation to him if in the relevant jurisdiction such an offer or invitation cannot lawfully be made to him, without compliance with any unfulfilled registration or other legal requirements. In such circumstances, this document (except for the notice of Extraordinary General Meeting set out at the end of this document) and/or a Provisional Allotment Letter is sent for information only.
- (b) It is the responsibility of all Overseas Shareholders receiving this document and/or a Provisional Allotment Letter and wishing to take up Rights Issue Shares or renounce the Provisional Allotment Letter to satisfy themselves as to full observance of the laws of the relevant jurisdiction, including obtaining all necessary governmental or other consents which may be required, and observing all other necessary formalities and paying any issue, transfer or other taxes due in such jurisdiction. Such persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any applicable legal requirements to enable them to take up their rights. The Company reserves the right to treat a provisional allotment represented by a Provisional Allotment Letter as having been declined if it believes acceptance of such allotment may violate applicable legal or regulatory requirements.
- (c) Persons (including, without limitation, nominees and trustees) receiving a Provisional Allotment Letter should not, in connection with the offer by way of rights, distribute or send it in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If a Provisional Allotment Letter is received by any person in any such jurisdiction or by the agent or nominee of such a person, he must not seek to take up the shares or renounce such Provisional Allotment Letter except pursuant to an express agreement with the Company. Any person who does forward a Provisional Allotment Letter into any jurisdiction whether pursuant to a contractual or legal obligation or otherwise should draw the attention of the recipient to the contents of this paragraph. The Company reserves the right to reject a purported acceptance of a provisional allotment represented by a Provisional Allotment Letter, or a renunciation thereof, from, or in favour of, Shareholders in any such jurisdiction or persons who are acquiring Rights Issue Shares for resale in any such jurisdiction.
- (d) In cases where Overseas Shareholders do not, or are unable because of local securities laws, to take up the Rights Issue Shares provisionally allotted to them, the arrangements concerning Rights Issue Shares not taken up will apply, as referred to in paragraph 5 above.

(ii) United States of America

- (a) The Rights Issue Shares and the Provisional Allotment Letters have not been and will not be registered under the US Securities Act of 1933 (the "Securities Act") and, except pursuant to an exemption from or in a transaction not subject to, the registration requirements of the Securities Act, the Rights Issue Shares and the Provisional Allotment Letters may not be offered, sold, taken up or delivered within the United States of America. Accordingly, this document does not constitute an offer for, or an invitation to subscribe or to purchase, any Rights Issue Shares or any Provisional Allotment Letters and, unless otherwise determined by the Company in its sole discretion and effected in a lawful manner, Provisional Allotment Letters are not being sent to, and will not be accepted for registration from any Qualifying Shareholder with a registered address in the United States of America who has not given an address in the United Kingdom for the service of notices.

- (b) Provisional Allotment Letters which appear to the Company to have been sent from or which are postmarked in the United States of America will be deemed to be invalid and the Company will not be bound to authorise the delivery of any Rights Issue Shares in the United States of America or to any person who provides an address in the United States of America for receipt of share certificates or who fails to make the representations and warranties set out in the Provisional Allotment Letter to the effect that such person is not in the United States of America.
- (c) Until 40 days after the commencement of the offer by way of rights, an offer or sale of Rights Issue Shares or Provisional Allotment Letters in the United States of America by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

(iii) Canada

The relevant exemptions are not being obtained from the Securities Commission of any province of Canada. Accordingly, Provisional Allotment Letters will not be sent and Rights Issue Shares will not be offered or sold, directly or indirectly, in Canada or to any Qualifying Shareholder with a registered address in Canada who has not given an address in the United Kingdom for the service of notices since to do so could require compliance with the relevant securities laws. Provisional Allotment Letters may not be renounced in favour of a person in Canada.

(iv) Australia

In order to comply with Australian law, no Provisional Allotment Letters will be sent to any Qualifying Shareholder with a registered address in Australia who has not given an address in the United Kingdom for the service of notices.

(v) Republic of South Africa

In order to comply with South African law, Provisional Allotment Letters sent to Qualifying Shareholders with registered addresses in South Africa will not be renounceable. Such Shareholders will require the approval of the South African Exchange Control Authorities if they wish to take up their rights.

(vi) Payments

All payments must be made in sterling in accordance with paragraph 4 above.

7. Taxation

The following paragraphs are intended as a general guide only and are based on current United Kingdom tax legislation and Inland Revenue practice as at the date of this document. They deal only with the position of Shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes, who are the beneficial owners of their Ordinary Shares and who hold their Ordinary Shares as an investment. They do not deal with the position of certain classes of Shareholders, such as dealers in securities. Any Shareholders who may be subject to tax in jurisdictions other than the United Kingdom or who are in any doubt as to their tax position should consult their own independent professional advisers without delay.

Dividends

Under current United Kingdom taxation legislation the Company does not have to withhold any tax from dividend payments. Advance corporation tax ("ACT") was abolished for distributions made on or after 6 April 1999 and, thus, the Company no longer has to account for ACT on dividends paid.

An individual shareholder who is resident in the United Kingdom for tax purposes should generally be entitled to a tax credit in respect of any dividend received. The tax credit will be equal to one-ninth of the dividend received.

Such an individual's liability to United Kingdom income tax is calculated on the sum of the dividend and the associated tax credit (the "gross dividend") although the tax credit may be set against the shareholder's income tax liability. The gross dividend will be treated as the top slice of the individual's income.

A United Kingdom resident individual shareholder who is liable to income tax at only the lower rate or the basic rate, will be liable to tax on the gross dividend at the rate of 10 per cent. Accordingly, the tax credit will discharge the individual's liability to income tax in respect of the gross dividend and there will be no further tax to pay. In the case of a United Kingdom resident individual shareholder who is liable to income tax at the higher rate (currently 40 per cent.), the rate of tax applicable to the gross dividend will be 32.5 per cent. Thus,

a higher rate taxpayer will be liable to additional income tax of 22.5 per cent. of the gross dividend or 25 per cent. of the net dividend.

With limited exceptions (relating to shares held in Personal Equity Plans and Individual Savings Accounts) United Kingdom resident individuals cannot claim repayment of the tax credit from the Inland Revenue.

A United Kingdom resident corporate shareholder (other than certain insurance companies) will generally not be liable to United Kingdom corporation tax on any dividend received. It will also not normally be entitled to repayment of the tax credit.

Subject to certain exceptions for Commonwealth citizens, residents of the Isle of Man or the Channel Islands and nationals of states which are part of the European Economic Area and certain others, the right of a shareholder who is not resident in the United Kingdom for tax purposes to claim any part of the tax credit will depend upon the existence and terms of any double taxation convention between the United Kingdom and the country in which he is resident.

In practice it is likely that such shareholders will not be able to reclaim any substantial part of such tax credit in respect of these dividends.

A shareholder who is not resident in the United Kingdom for tax purposes should consult his own tax adviser concerning his tax liabilities on dividends received, his entitlement to claim any part of the tax credit and, if he is so entitled, the procedure for doing so. A shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under local law.

Stamp duty and stamp duty reserve tax

Save in relation to depositary receipt arrangements, clearance services and in certain other circumstances where special rules apply:

- (i) no stamp duty or stamp duty reserve tax ("SDRT") is payable by Qualifying Shareholders on the issue or registration of Provisional Allotment Letters, whether by the original holders or their renounees;
- (ii) where rights to new Ordinary Shares represented by a Provisional Allotment Letter (whether nil or fully paid) are sold on or before the last date for registration of renunciation the purchaser will generally be liable to SDRT at the rate of 0.5 per cent. of the consideration paid;
- (iii) any future dealings in the Rights Issue Shares or dealings in the Ordinary Shares will be subject to stamp duty or SDRT in the normal way.

Capital gains tax

It is understood that the Inland Revenue will treat the issue of Rights Issue Shares by the Company to a Qualifying Shareholder up to and including his *pro rata* entitlement as a reorganisation of the Company's share capital for the purposes of United Kingdom taxation on chargeable gains ("CGT") (which expression shall include, unless the context indicates otherwise, corporation tax in respect of chargeable gains).

Accordingly, a Qualifying Shareholder will not be treated as making a disposal of any part of his Ordinary Shares by reason of the Rights Issue. Rights Issue Shares issued pursuant to the Rights Issue to a Qualifying Shareholder should be treated for CGT purposes (other than for the purposes of any indexation allowance) as the same asset as his holding of Ordinary Shares as if they had been acquired at the same time as his holding of Ordinary Shares. The subscription monies for such Rights Issue Shares which a Qualifying Shareholder takes up will be added to the acquisition cost of his holding of existing Ordinary Shares.

If a Qualifying Shareholder disposes of all or part of the Rights Issue Shares provisionally allotted to him or his rights to subscribe for Rights Issue Shares or if he allows or is deemed to have allowed his rights to lapse in return for a cash payment or other consideration, a liability to taxation on capital gains may, depending on his circumstances, arise.

The Finance Act 1998 includes various provisions regarding the reform of CGT on gains made by individuals, trustees and personal representatives on or after 6 April 1998. The CGT rules for such shareholders have been amended in the following manner:

- (a) Indexation ceased to run from April 1998. Indexation is given for periods up to 1 April 1998 but not thereafter. For assets acquired on or after 1 April 1998 no indexation allowance is allowable in computing chargeable gains.

- (b) Indexation has been replaced by a taper relief which reduces the amount of the chargeable gain according to how long the asset has been held. The taper relief is more generous for business assets than for non-business assets. The taper relief is measured in terms of completed years of ownership of the asset after 5 April 1998, although in relation to assets which were acquired before 17 March 1998 there is an addition of one year to the period for which they are treated as held after 5 April 1998.
- (c) The Ordinary Shares of Qualifying Shareholders which have been acquired on or after 6 April 1998, are not treated as the same asset as any other share acquired before that date.

The consequence of this is that in applying the reorganisation rules an apportionment is made between the Ordinary Shares held before 6 April 1998, and those acquired on or after that date. Such apportionment is made on a *pro rata* basis. To the extent to which such Rights Issue Shares are apportioned to the Ordinary Shares which were held before 6 April 1998, then the rules described above regarding reorganisation still apply. Any Ordinary Shares acquired after that date, however, will constitute a separate holding, or (if acquired on more than one day) a series of separate holdings, and the reorganisation rules described above will apply separately in relation to each such existing holding, again on a *pro rata* basis.

As mentioned above, these rules apply only in relation to CGT on gains made by individuals, trustees and personal representatives on or after 6 April 1998. They do not apply in relation to corporation tax on chargeable gains by companies, to which the existing rules apply. In particular, indexation is still available for companies but, in respect of payments for Rights Issue Shares, indexation will only run from the date of those payments.

Shareholders who are in any doubt as to their tax position should consult their own professional adviser without delay.

PART 3 – TERMS AND CONDITIONS OF THE SETTLEMENT DEED

Middlesex has entered into a Settlement Deed conditional upon Shareholder approval and upon the Admission of the New Ordinary Shares, pursuant to which the Transactions will be implemented.

Revenant

The transfer to Sir David Alliance of the 5.2 per cent. stake in OEMK will be in satisfaction of the principal of Sir David's Revenant Loan Note. Sir David Alliance has agreed to waive all accrued but unpaid interest on Sir David's Revenant Loan Note and his share of all declared but unpaid dividends and retained income of Revenant. Sir David Alliance has undertaken to transfer his 40 per cent. interest in Revenant to Middlesex for a nominal consideration of US\$1.

The Option

Sir David Alliance has agreed to grant Middlesex the Call Option, which gives Middlesex the right to buy back the OEMK Shares at the Option Minimum Exercise Price at any time within three years from the date of approval of the Transactions. Middlesex has also agreed to grant Sir David Alliance the Put Option which gives him the right to require Middlesex to buy back the OEMK Shares at the Option Minimum Exercise Price in the 60 day period following the expiry of the Call Option exercise period.

In addition to the Option Minimum Exercise Price, in the event that the average share price offered by market makers for OEMK Shares on the Russian Bourse in the 30 day trading period prior to the exercise of the Option is in excess of the Option Minimum Exercise Price, Sir David Alliance will be entitled to 50 per cent. share of the difference per share over the Option Minimum Exercise Price up to a further amount of US\$43.50 per OEMK share. Sir David Alliance will also be entitled to a further 50 per cent. share in the gains over any such amount realised by Middlesex on any subsequent disposal of the OEMK Shares in the period of twelve months following the date of exercise of the Option over the Option Minimum Exercise Price up to a further amount of US\$43.50 per OEMK share. Under these arrangements the maximum aggregate liability to Sir David Alliance shall not exceed US\$75 per OEMK share.

Sir David Alliance has agreed not to sell, transfer, charge or otherwise dispose of the OEMK Shares during the period of the Call Option save that he may at any time sell to third parties if the price exceeds US\$31.50 but Middlesex shall have a right of first refusal to acquire such shares at the price agreed with such a third party.

Middlesex OEMK

Middlesex has undertaken to acquire Sir David Alliance's 24.5 per cent. shareholding in Middlesex OEMK at the par value of US\$1 per ordinary share. Middlesex has undertaken to make payment for Sir David Alliance's equity stake in two equal instalments, with US\$1,225,000 due on 30 November 1999 and a further US\$1,225,000 being due to be paid on or before 31 May 2000. Middlesex has agreed to prepare completion accounts to 30 November 1999 and 31 May 2000 and to pay Sir David Alliance any dividends to which he would have been entitled during those periods in respect of the Middlesex OEMK shares for which he has not then received payment. It has also been agreed that pursuant to the Settlement Deed, Middlesex will, upon completion, acquire from Oskmet the 2,450,000 ordinary shares of US\$1 each and 50,000 'A' ordinary shares of £1 each in Middlesex OEMK at the par value of US\$1 per ordinary share and £1 per 'A' ordinary share, respectively, in settlement of £50,000 plus US\$2,450,000 of Oskmet's debt to Middlesex.

Warrants

As part of the consideration for the purchase of the minority interests in Middlesex OEMK, Middlesex has agreed to issue 20,000,000 Warrants to each of Sir David Alliance and Oskmet. The Warrants will entitle Sir David Alliance and Oskmet to subscribe for an aggregate number of 40 million new Ordinary Shares in Middlesex at 1.5 pence per Ordinary Share, at any time during a period of three years commencing on the date Shareholder approval is given for the Transactions.

Rights attaching to the Warrants

The Warrants will be issued, conditional upon Admission, pursuant to a Warrant Instrument to be executed as a deed by the Company. The Warrants will be issued to each of Sir David Alliance and Oskmet entitling them to subscribe for 20,000,000 new Ordinary Shares each.

The Warrants can be exercised during a three year subscription period commencing on the date of execution of the Warrant Instrument. Any Warrants outstanding thereafter will lapse.

The Warrants may be exercised in whole or in part at the exercise price of 1.5 pence for each Ordinary Share. If the Company capitalises profits or reserves or makes any sub-division or consolidation of Ordinary Shares during the subscription period, the number of Warrants and/or the exercise price will be adjusted in such manner as the Auditors shall certify to be fair and reasonable in the circumstances. Further, if the Company offers new Ordinary Shares to qualifying shareholders for subscription by way of rights (other than pursuant to the Rights Issue) or otherwise offers to grant options, rights or warrants to subscribe for new Ordinary Shares at a price which is less than the market price at such time, the exercise price shall be adjusted by way of a mathematical formula (as described more fully in the Warrant Instrument itself), which is intended to minimise any consequent dilution of Warrant-holders' rights.

The Warrants shall be transferable individually and in integral multiples and any changes in the identity of the Warrant-holders shall be notified to the Registrar. Save for the registered Warrant-holders, the Company shall not be bound to recognise any other claims to, or interest in, any Warrant.

Warrant-holders are entitled to receive all dividends paid on or by reference to a record date falling on or after the date of exercise of the Warrants. In the event that the Company goes into liquidation, unexercised Warrants shall cease to be valid for any purpose. Warrant-holders are not entitled to attend and vote at general meetings of the Company.

Save for formal, minor or technical modifications, or solely to correct manifest error, changes to the terms of the Warrant Instrument may only be amended with the approval of the Warrant-holders in extraordinary general meeting. The Warrant Instrument contains provisions relating to the holding of meetings of the Warrant-holders who shall have powers to consider, authorise and assent to proposals of the Company in relation to certain Warrant-holders' rights.

Afon Tinsplate Company Limited

Middlesex has also agreed not to dispose of or pledge in whole or in part without the prior consent of Sir David Alliance, any of its 36 per cent. equity investment in Afon Tinsplate Company Limited until the date which is the first anniversary of the date of the exercise of the Option save in the event that Middlesex wishes to sell the whole or part of its shareholding in Afon Tinsplate Company Limited upon the exercise of the Option.

Termination of shareholders' agreements

Upon acquisition by Middlesex of the minority interests in Revenant and Middlesex OEMK, the Revenant Shareholders' Agreement and the Middlesex OEMK Shareholders' Agreement, respectively, will be terminated.

PART 4 – RISK FACTORS

An investment in the Ordinary Shares involves a high degree of risk and, accordingly, prospective investors should have particular regard to the risk factors affecting the Group, as set out below:

Worldwide economic conditions

The steel, DRI and tinplate products traded by the Group are used by a wide range of industries throughout the world, which are dependent upon general economic conditions and cycles. Economic conditions and cycles may have an adverse effect on the demand for the relevant products in which the Group trades, which may in turn affect the level of activity and earnings of the Group's business.

Dependence on key personnel

The Group's investment and trading activities are dependent on the retention of personnel with relevant experience and expertise. Whilst the loss of key personnel has in the past been very low and the Group has put in place incentive arrangements designed to minimise this loss, there can be no assurance that the Group will continue to be successful in attracting, retaining and motivating such personnel.

Year 2000

The Year 2000 issue relates to electronic systems, primarily computer and other business systems which have time sensitive programs that may not properly reflect or recognise the Year 2000. The Group has invested in and/or trades with third parties located in the Russian Federation, in particular OEMK, which use computer software and related systems in their businesses which could be affected by the Year 2000 issue. OEMK has confirmed to Middlesex that all its computer and other business systems have been reviewed and that they are Year 2000 compliant. However, there can be no total assurance that the computer software and systems of such third parties will perform as expected or that measures taken by third parties will successfully minimise or eliminate the effects of the Year 2000 issue. The steps taken by the Group to address its own Year 2000 issue are contained in paragraph 9 of Part 1 of this document.

Foreign exchange

The majority of the Group's turnover and cost of sales are denominated in dollars and the majority of its administrative expenses are denominated in sterling. The profitability of the Group in the reporting currency sterling could be affected if there was a very large appreciation in the value of the sterling measured against the US dollar.

Russian Federation

(i) Political and social environment

Over the past ten to fifteen years Russia has been transformed from a communist state to the early stages of a popular democracy. There can be no assurance that the political and economic reforms required to complete this transformation will be completed. The transformation process renders Russia vulnerable to economic hardship, public opposition to the reform process, social or ethnic instability and changes in government policies, any of which could adversely affect the Group's investment in OEMK and Lebedinsky and the trading of OEMK's products. The political environment has remained relatively stable in Russia since the presidential and parliamentary elections in June 1996, with the reformers' control over government policies being consolidated thereafter. However, there can be no assurance that this stability will continue. The Communist-led opposition dominates the Lower House of the Parliament and Russia has yet to experience a presidential succession. The next presidential election is due to take place in June 2000 and no assurance can be given that this election will proceed smoothly or peacefully.

(ii) Economic and financial environment

Until 1992, the central authorities of the Soviet Union administered the Russian economy. Confronted with the dissolution of those authorities and potential economic upheaval, the Government has been attempting to implement policies of economic reform and stabilisation. These policies have involved liberalising prices, reducing public spending and subsidies for state-owned enterprises, privatising state-owned enterprise, reforming the tax system, introducing legal structures designed to facilitate

private, market-based activities and encourage foreign trade and investment. Whilst these policies have met with some success, the Russian economy, banking systems and financial markets were severely affected by the deterioration in the financial position of emerging markets, partly brought about by the actions of international financial speculators, which commenced in the Asian and Far Eastern emerging markets in the autumn of 1997 and hit Russia in August 1998. The Russian rouble was devalued against the US\$, the banking system was put under immense strain and bankruptcies were common. Since August 1998 the situation has stabilised and shown signs of improvement. As a result of the devaluation of the rouble the price of imported goods has become prohibitively expensive for the average Russian. This has resulted in locally produced goods being more competitive and as a result the economy and financial situation are improving. More recently the alleged money laundering scandals that have had extensive press coverage have not helped to promote Russia as a country with which to do business. Only time will tell whether or not these allegations prove to be accurate and if so, to what extent.

(iii) *Legal system*

Russia lacks a fully developed legal system. The law is evolving rapidly and sometimes in ways that do not coincide with market developments, resulting in ambiguities, inconsistencies and anomalies and ultimately in investment risk that would not exist in more developed legal systems. Effective redress in Russian courts in respect of a breach of law or regulation, or in an ownership dispute, may be difficult to obtain.

(iv) *Strategic relationships*

In conducting its business, the Group will rely on continuing relationships with key individuals at a subsidiary of RAO Gazprom, Gazprominvestholding, which owns 20 per cent. of OEMK and 60 per cent. of Lebedinsky. Trading agreements with OEMK account for most of the Group's business save for the business of Wolff Steel Limited. The Directors believe that the relationships and agreements with OEMK and Lebedinsky will be enhanced with both companies, through their respective European trading subsidiaries, Oskmet and LebGOK, which will become substantial shareholders in Middlesex on the conclusion of the Rights Issue and Subscription. Details of the existing distribution agreements with OEMK are set out in paragraph 1 of Part 7 of this document. Whilst the Group has no reason to believe otherwise, there can be no total assurance that these relationships and agreements will continue to be maintained and the Group could be materially affected by major changes to such relationships and agreements.

PART 5 – FINANCIAL INFORMATION ON THE GROUP

A. Basis of Preparation

The financial information set out below has been extracted without material adjustment from the published consolidated financial statements of the Group. The financial information does not constitute statutory accounts within section 240 of the Companies Act 1985. Full statutory accounts for each of the years ended 31 December 1996, 31 December 1997 and 31 December 1998 have been delivered to the Registrar of Companies. The Company's auditors, Deloitte & Touche, Chartered Accountants, have reported without qualification in accordance with section 236 of the Companies Act 1985, in respect of the financial statements for each of the years ended 31 December 1996, 31 December 1997 and 31 December 1998. The audit report for the year ended 31 December 1998 contained the following reference:

“Uncertainties.

In forming our opinion we have considered the adequacy of the disclosures made in the financial statements concerning the uncertainties concerning the Group's significant investments in the Russian Federation and a proposed transaction requiring shareholders' approval. We consider that these matters should be drawn to your attention but our report is not qualified in these respects”.

B. Financial Information

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Note	Year ended 31 December		
		1996 £000	1997 £000	1998 £000
Turnover	2	180,535	179,202	111,465
Cost of sales		(168,040)	(170,420)	(104,952)
Gross profit		12,495	8,782	6,513
Administrative expenses – recurring		(3,960)	(4,897)	(5,024)
– exceptional	3	–	(1,438)	(14,772)
		(3,960)	(6,335)	(19,796)
Other operating income/(charges) (net)	4	698	(83)	102
Operating profit/(loss)	5	9,233	2,364	(13,181)
Share of associated undertakings' operating profits/(losses)				
– continuing operations		(40)	573	497
– discontinued operations		(356)	(553)	(278)
	13	(396)	20	219
Loss on sale of investment property		(48)	–	–
Profit on sale of associated undertakings				
– profit against carrying value		–	87	1,315
– goodwill written back on disposal		–	–	(415)
		–	87	900
Profit/(loss) on ordinary activities before interest		8,789	2,471	(12,062)
Interest receivable and similar income		659	302	227
Amounts written off investments	6	–	–	(762)
Interest payable and similar charges	7	(1,431)	(2,047)	(1,453)
Profit/(loss) on ordinary activities before taxation	2	8,017	726	(14,050)
Tax (charge)/credit on profit/(loss) on ordinary activities	8	(2,692)	(1,312)	905
Profit/(loss) on ordinary activities after taxation		5,325	(586)	(13,145)
Equity minority interest		(905)	(1,142)	(299)
Profit/(loss) for the financial year		4,420	(1,728)	(13,444)
Proposed dividend	9	(799)	–	–
Retained profit/(loss) for the financial year	23	3,621	(1,728)	(13,444)
Basic earnings/(loss) per ordinary share	25	0.62p	(0.22)p	(1.7)p
Diluted earnings/(loss) per ordinary share	25	0.60p	(0.22)p	(1.7)p

All turnover and operating profit/(loss) derive from continuing operations

STATEMENTS OF TOTAL RECOGNISED GAINS AND LOSSES

	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
Profit/(loss) for the financial year	4,420	(1,728)	(13,444)
Unrealised surplus on revaluation of investment in associated undertaking	22	—	—
Unrealised surplus on revaluation of investment property in associated undertaking	464	—	—
Negative goodwill credited to reserves	1,098	—	—
Goodwill written off to reserves in associated undertaking	(415)	—	—
Currency translation differences on foreign currency net investments	(1,422)	444	(202)
Total gains and losses recognised in the financial year	4,167	(1,284)	(13,646)

NOTES OF HISTORICAL COST PROFITS AND LOSSES

	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
Profit/(loss) on ordinary activities before taxation	8,017	726	(14,050)
Realisation of interest in associated undertaking being investment property owned by associated undertaking revalued in prior year	—	—	464
Historical profit/(loss) on ordinary activities before tax	8,017	726	(13,586)
Historical profit/(loss) for the year after taxation and minority interests	4,420	(1,728)	(12,980)

CONSOLIDATED BALANCE SHEETS

	Note	As at 31 December		
		1996 £000	1997 £000	1998 £000
Fixed assets				
Intangible assets	11	1,373	1,231	1,089
Tangible assets	12	217	238	152
Investments	13	6,065	9,820	16,057
Mining leases	14	1,660	1,000	10
		<u>9,315</u>	<u>12,289</u>	<u>17,308</u>
Current assets				
Stocks	15	2,164	2,217	1,828
Debtors – falling due within one year	16	46,772	28,657	13,240
– falling due after more than one year	16	603	18,310	–
Cash at bank and in hand		6,154	2,685	2,505
		<u>55,693</u>	<u>51,869</u>	<u>17,573</u>
Creditors: amounts falling due within one year	17	<u>(33,780)</u>	<u>(35,414)</u>	<u>(20,371)</u>
Net current assets/(liabilities)		<u>21,913</u>	<u>16,455</u>	<u>(2,798)</u>
Total assets less current liabilities		<u>31,228</u>	<u>28,744</u>	<u>14,510</u>
Creditors: amounts falling due after more than one year	18	<u>(75)</u>	<u>(77)</u>	<u>(75)</u>
Provisions for liabilities and charges	19	<u>(1,869)</u>	<u>(1,237)</u>	<u>–</u>
Total net assets		<u>29,284</u>	<u>27,430</u>	<u>14,435</u>
Capital and reserves				
Called up share capital	20	1,999	2,025	2,026
Share premium account	21	14,172	14,267	14,288
Revaluation reserve	22	486	464	–
Profit and loss account	23	8,816	7,554	(5,213)
Total equity shareholders' funds	24	<u>25,473</u>	<u>24,310</u>	<u>11,101</u>
Equity minority interests		<u>3,811</u>	<u>3,120</u>	<u>3,334</u>
		<u>29,284</u>	<u>27,430</u>	<u>14,435</u>

CONSOLIDATED CASH FLOW STATEMENTS

	Note	Year ended 31 December		
		1996 £000	1997 £000	1998 £000
Cash (outflow)/inflow from operating activities	26(a)	(5,784)	(4,682)	14,398
Dividends received from associated undertaking		35	172	73
Returns on investments and servicing of finance	26(b)	(446)	(2,780)	(566)
Taxation		(422)	(72)	(2,404)
Net cash (outflow)/inflow from capital expenditure and financial investment	26(b)	(17,373)	3,509	4,927
Acquisitions and disposals		(1,701)	–	–
Equity dividends paid		(524)	(688)	(100)
Cash inflow/(outflow) before financing		(26,215)	(4,541)	16,328
Financing – Issue of ordinary share capital	26(b)	7,587	121	22
– Increase/(decrease) in debt	26(b)	12,483	273	(16,764)
Net cash inflow/(outflow) from financing		20,070	394	(16,742)
Decrease in cash	26(c)	(6,145)	(4,147)	(414)

Reconciliation of net cash flow to movement in net debt

	Note	1996 £000	1997 £000	1998 £000
Decrease in cash in the year ended 31 December	26(c)	(6,145)	(4,147)	(414)
Cash (inflow)/outflow from (increase)/decrease in debt	26(c)	(12,483)	(273)	16,764
Change in net debt resulting from cash flows		(18,628)	(4,420)	16,350
Loans and finance leases acquired with subsidiary		(86)	–	–
Translation difference		(2,125)	(645)	138
Other non-cash changes		(433)	(368)	(337)
Movement in net debt in the year		(21,272)	(5,433)	16,151
Net cash/(debt) at 1 January		3,028	(18,244)	(23,677)
Net debt at 31 December	26(c)	(18,244)	(23,677)	(7,526)

NOTES TO THE FINANCIAL INFORMATION

1. Basis of preparing the financial statements

(a) The Directors have always recognised that investing in and trading with the Russian Federation has a degree of political, regulatory and economic risk. The Directors pay close attention to the monitoring and management of such risks, particularly in relation to the Group's investments, in order to ensure the Group's continued ability to trade. Having considered these issues the Directors believe it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the crystallisation of any such risk.

(b) Accounting policies

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below. These accounting policies have been amended in order to comply with FRS 9, 10, 11, 12, 13 and 14. These amendments have had no material effect on any comparative figures, except for earnings per share.

(i) Accounting convention

The financial statements are prepared under the historical cost convention.

(ii) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all operating subsidiaries.

(iii) Acquisitions

On the acquisition of a subsidiary, fair values are attributed to the Group's share of net tangible assets. Where the cost of acquisition exceeds the values attributable to such net assets, the difference is treated as purchased goodwill, and from 1 January 1998, is capitalised and, where appropriate, amortised over its estimated useful life which it is anticipated will not be more than twenty years. Where the cost of acquisition is less than the values attributable to such net assets, the difference is treated as negative goodwill. Any negative goodwill is recognised in the profit and loss account in the periods expected to benefit. Up to 31 December 1997 all purchased and negative goodwill has been written off or credited to reserves in the year of acquisition.

(iv) Intangible fixed asset

The distribution agreement is depreciated in equal annual amounts over the period of the agreement, being 10 years. Provision is made for asset impairment if the asset's recoverable amount (the higher of net realisable value and value in use) falls below its carrying value.

(v) Tangible fixed assets and depreciation

Depreciation is provided on an equal annual instalment basis over the anticipated useful working lives of the assets at the following rates:

Motor vehicles	– at 25% to 50% on cost.
Plant and machinery	– at 15% to 25% on cost.
Office equipment	– at 15% to 25% on cost.

Provision is made for asset impairment if the asset's recoverable amount (the higher of net realisable value and value in use) falls below its carrying value.

(vi) Mining leases

Mining leases are stated at cost, together with exploration and development expenditure incurred less provision for any impairment to their carrying value.

(vii) Investments

Except as stated below, investments held as fixed assets are stated at cost less provision for any impairment to their carrying values.

In the consolidated accounts, shares in associated undertakings are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of profits and losses of associated undertakings at or below operating profit and the consolidated balance sheet includes the Group's share of net assets of its associated undertakings within fixed assets investment. The financial results for Agrifarm International Limited for 31 December 1996 and 31 December 1997 and Dominion Energy PLC for 31 December 1997 and until their dates of disposal in August 1998 and October 1998, respectively are based on unaudited management accounts. The financial results for all of the Group's other associated undertakings are based on audited financial statements to 31 December 1996, 31 December 1997 and 31 December 1998, except for ISE International

Furniture Limited, which in 1998 changed its accounting reference date from 31 December to 30 June, and the unaudited management accounts for the year ended 31 December 1998 have been used.

(viii) Stocks

Stocks and work-in-progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis, and includes materials, direct labour and production overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

(ix) Deferred tax

Deferred tax is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

(x) Turnover

Turnover represents sales of goods, less returns, and services invoiced to external customers, excluding Value Added Tax.

(xi) Foreign exchange

Transactions of UK companies denominated in foreign currencies are translated into sterling at the average rate. Monetary assets and liabilities of UK companies denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

The financial statements of UK companies, which report in foreign currencies and foreign subsidiaries, are translated into sterling at the closing rate of exchange for the balance sheet and at the average rate for the profit and loss account. The difference arising from the translation of the opening net investment in subsidiaries at the closing rate is taken direct to reserves.

(xii) Leases

Assets held under finance leases are capitalised at their value on the inception of the leases and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding. Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

(xiii) Pensions

A subsidiary company operates a defined contribution scheme, the funds of which are externally invested and held separately from the Company and the Group. The contributions to this scheme are charged to the profit and loss account as they arise. The cost of providing the money purchase scheme for three of the Directors is charged to the profit and loss account as it arises.

2. Segmental analysis of results

(i) Turnover

	By destination		
	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
Taiwan	52,406	39,622	16,374
CIS	37,770	4,113	1,993
Philippines	20,133	6,174	2,895
Malaysia	10,291	9,685	–
Indonesia	9,810	11	6,112
Romania	8,659	4,641	2,418
Morocco	7,670	3,975	3,349
USA	6,623	22,988	9,609
Thailand	6,076	5,673	1,625
Switzerland	4,646	–	–
Spain	3,794	17,552	23,851
Mexico	3,031	7,333	9
Italy	2,953	4,743	3,890
Israel	1,595	–	–
Turkey	1,345	3,121	1,598
Vietnam	1,186	–	–
Australia	336	2,694	1,750
UK	148	873	645
British Virgin Islands	–	8,855	–
Singapore	–	7,653	–
Ecuador	–	5,401	4,943
Poland	–	4,083	1,408
India	–	3,827	1,947
Panama	–	3,735	2,298
Guatemala	–	3,386	52
Canada	–	2,598	–
Korea	–	2,302	–
Argentina	–	1,053	1,901
Egypt	–	835	1,829
Hungary	–	556	880
France	–	537	173
Peru	–	–	7,717
Jordan	–	–	3,725
Colombia	–	–	1,579
Dominican Republic	–	–	1,407
Finland	–	–	1,246
El Salvador	–	–	1,142
Costa Rica	–	–	715
Pakistan	–	–	665
Liechtenstein	–	–	563
Belgium	–	–	545
Other	2,063	1,183	612
	<u>180,535</u>	<u>179,202</u>	<u>111,465</u>

(ii) *Turnover*

	By location		
	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
UK	141,242	171,791	105,591
Bermuda	27,426	–	–
Jersey	11,531	–	–
Australia	336	2,694	1,768
USA	–	4,717	4,106
	180,535	179,202	111,465

Of the above turnover in the year ended 31 December 1996: £134,170,000; 31 December 1997: £154,500,000 and 31 December 1998: £99,543,000 related to sales of OEMK products.

(iii) *Turnover*

	By class of business		
	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
Metals and metal related activities	171,322	177,344	109,971
Agriculture	3,988	–	–
Oil	2,563	–	–
Financial services	2,548	1,858	1,494
Property	8	–	–
Other	106	–	–
	180,535	179,202	111,465

(iv) *Profit/(loss) on ordinary activities before taxation*

	By class of business		
	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
Metals and metal related activities	3,841	3,609	1,852
Oil – associated undertaking – discontinued in 1998	2,563	(10)	(169)
Financial services	2,548	1,244	1,464
Agriculture – associated undertaking – discontinued in 1998	694	(1,015)	692
Other – recurring	50	80	66
Property	8	–	–
Other – Provision for			
Amounts due from CTSC MIFK Interfin	–	–	(11,976)
OAU Yuzhuralnickel option	–	–	(1,071)
Mining leases in Nevada, USA	–	(660)	(990)
Customers' claims	–	–	(663)
Amounts due from two trade investments which have			
Siberian gold mining interests	–	–	(42)
Acquisition of minority shareholders in Siberian			
gold mining interests	–	–	(30)
Doubtful debt	–	(778)	–
– Amount written off trade investments	–	–	(762)
Net interest payable and parent company expenses	(1,687)	(1,744)	(2,421)
	8,017	726	(14,050)

(v) *Profit/(loss) on ordinary activities before taxation*

	By location		
	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
Bermuda	4,541	(160)	(3,083)
UK – group companies	4,088	3,741	(9,292)
– associated undertakings	(447)	(700)	(125)
Australia	32	150	1
Canada	1	(36)	–
USA	(31)	(766)	(997)
Jersey	(167)	(1,503)	(554)
	8,017	726	(14,050)

(vi) *Net assets/(liabilities)*

	By class of business		
	As at 31 December		
	1996 £000	1997 £000	1998 £000
Metals and metal related activities	26,123	24,331	11,924
Oil – associated undertaking – discontinued in 1998	2,353	2,728	–
Agriculture – associated undertaking – discontinued in 1998	638	(631)	–
Other	170	188	233
Financial services	–	814	2,278
	29,284	27,430	14,435

(vii) *Net assets*

	By location		
	As at 31 December		
	1996 £000	1997 £000	1998 £000
UK	11,905	14,878	7,879
Jersey	10,642	8,162	5,951
Bermuda	3,779	2,875	–
USA	1,826	907	36
Australia	1,096	608	569
Canada	36	–	–
	29,284	27,430	14,435

3. *Administrative expenses – exceptional*

	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
Provision for:			
Amounts due from CTSC MIFK Interfin	–	–	11,976
OAU Yuzhuralnickel option	–	–	1,071
Mining leases in Nevada, USA	–	660	990
Customers' claims	–	–	663
Amounts due from two trade investments which have			
Siberian gold mining interests	–	–	42
Acquisition of minority shareholders in Siberian			
gold mining interests	–	–	30
Doubtful debt	–	778	–
	–	1,438	14,772

4. Other operating income/(charges) (net)

	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
Other income	772	152	102
Distribution costs	(74)	(235)	–
	698	(83)	102

Other income for 1996 includes a profit of £590,000 on the sale of a trade investment.

5. Operating profit/(loss)

	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
Operating profit/(loss) is after charging:			
Depreciation and other amounts written off tangible and intangible fixed assets:			
Owned assets	36	84	70
Leased assets	1	–	–
Intangibles	47	142	142
Auditors' remuneration:			
Audit fees – current year provision	90	142	189
– prior year under provision	32	70	35
Other services	46	66	128
Rentals under operating leases:			
Other operating leases	79	136	114

The Company's auditors' remuneration – audit fee provision is 1996: £65,000; 1997: £66,000 and 1998: £80,000 and the prior year under provision is 1996: £nil; 1997: £55,000 and 1998: £35,000 and the other services is 1996: £42,000; 1997: £62,000 and 1998: £123,000.

6. Amounts written off investments

	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
Northern Maritime Property Investments Limited	–	–	349
CTSC MIFK Interfin	–	–	274
Forestrealm Limited	–	–	136
MBA Energy	–	–	3
	–	–	762

7. Interest payable and similar charges

	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
Bank loans and overdrafts	962	1,454	600
Deposited Loan Stock 2006	8	49	47
Interest on minority shareholders' loans	680	574	448
Bank charges	591	869	344
Share of associated undertakings' interest payable	51	720	344
On finance leases	1	–	–
	2,293	3,666	1,783
Less included in cost of sales	(862)	(1,619)	(330)
	1,431	2,047	1,453

Interest on bank loans of 1996: £595,000; 1997: £1,011,000 and 1998: £106,000 and bank charges of 1996: £267,000; 1997: £608,000 and 1998: £224,000 have been included in cost of sales as these expenses are trade finance related.

8. Tax charge/(credit) on profit/(loss) on ordinary activities

	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
UK corporation tax at 1996: 33%; 1997: 31.5% and 1998: 31% based on profit/(loss) for the year	1,907	1,826	303
Deferred taxation	799	(632)	(1,237)
Overseas taxation	9	21	1
Tax applicable to associated undertakings	(23)	92	60
	2,692	1,307	(873)
Adjustment in respect of prior years	–	5	(32)
	2,692	1,312	(905)

The taxation charge for 1997 is disproportionately high compared to the profit on ordinary activities before taxation because of losses in overseas companies which cannot be relieved against UK profits and a non-allowable provision against losses in an associated undertaking.

The taxation credit for 1998 is low compared to the loss on ordinary activities before taxation mainly due to losses in overseas subsidiary companies which cannot be relieved against UK profits and non-allowable provisions against the carrying value of investments.

9. Proposed dividend

	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
Final proposed – 1996: 0.1p; 1997: nil p and 1998: nil p per ordinary equity share	799	–	–

10. Information regarding Directors and employees

	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
Directors' remuneration:			
Fees as Directors	34	37	63
Other emoluments	250	388	444
	284	425	507

Directors' remuneration, excluding pensions, is made up as follows:

	Year ended 31 December 1996				Total remuneration excluding pensions £000
	Salaries £000	Fees £000	Benefits in kind £000	Compensation for loss of office £000	
<i>Executive:</i>					
Lord Owen	50	—	—	—	50
M A Alikhani	95	—	—	—	95
A F Moshiri	42	—	5	—	47
D Hillel *	10	—	—	—	10
Dr A P Vladislavlev	14	—	—	—	14
I P Spratling	10	—	1	—	11
P H Edmonds	10	—	—	13	23
<i>Non-Executive:</i>					
J G West *	—	8	—	—	8
P M Enoch	—	14	—	—	14
J P A Wolf *	—	12	—	—	12
	231	34	6	13	284

* D Hillel's Director's remuneration for the year ended 31 December 1996 of £10,000 has been invoiced by Auerbach Hope, a firm of Chartered Accountants, in which he is a partner. J P A Wolff's Director's fees for the year ended 31 December 1996 of £12,000 have been invoiced by John Wolff International Limited, a company of which he is a director and shareholder. J G West's Director's fees for the year ended 31 December 1996 of £8,000 have been invoiced by Jimmy West Associates Limited, a company of which he is a director and shareholder.

The total emoluments of the highest paid Director, M A Alikhani were £95,000.

Year ended 31 December 1997

	Salaries £000	Fees £000	Benefits in kind £000	Total remuneration excluding pensions £000
<i>Executive:</i>				
Lord Owen	50	—	—	50
M A Alikhani ⁽¹⁾	120	—	1	121
A F Moshiri	75	—	10	85
I Falconer – appointed 26 June 1997	32	—	—	32
D Hillel ⁽²⁾ – retired 18 August 1997	8	—	—	8
Dr A P Vladislavlev – retired 18 August 1997	9	—	—	9
I P Spratling	75	—	7	82
A A Ugarov – appointed 14 April 1997	1	—	—	1
<i>Non-Executive:</i>				
J G West ⁽³⁾	—	15	—	15
P M Enoch – retired 18 August 1997	—	8	—	8
J P A Wolff ⁽⁴⁾	—	14	—	14
	370	37	18	425

Notes

- (1) M A Alikhani stepped down as Chief Executive and was appointed a Non-Executive Director on 1 June 1998.
- (2) D Hillel's Director's remuneration for the period until he retired on 18 August 1997 of £8,000 has been invoiced by Auerbach Hope, a firm of Chartered Accountants, in which he is a partner.
- (3) J G West's Director's fees for the year ended 31 December 1997 of £15,000 has been invoiced by Jimmy West Associates Limited, a company of which he is a director and shareholder.
- (4) J P A Wolff's Director's fees for the year ended 31 December 1997 of the £14,000 have been invoiced by John Wolff International Limited, a company of which he is a director and shareholder.

The total emoluments of the highest paid Director, M A Alikhani, were £121,000 and he realised a gain of £575,000 on options exercised.

Year ended 31 December 1998

	Salaries £000	Fees £000	Bonus £000	Benefits in kind £000	Total remuneration excluding pensions £000
<i>Executive:</i>					
Lord Owen	50	—	—	—	50
A F Moshiri	130	—	50	12	192
I Falconer	70	—	20	—	90
A A Ugarov	16	—	—	—	16
I P Spratling ⁽¹⁾	35	—	—	10	45
M A Alikhani ⁽²⁾	50	—	—	1	51
<i>Non-Executive:</i>					
J G West ⁽³⁾	—	20	—	—	20
J P A Wolff ⁽⁴⁾	—	17	—	—	17
M A Alikhani ⁽²⁾ – resigned 26 November 1998	—	9	—	—	9
M A Winer ⁽⁵⁾ – appointed 6 January 1998; resigned 21 December 1998	—	17	—	—	17
	351	63	70	23	507

The bonus of £50,000 paid to A F Moshiri in 1998 was discretionary and relates to his role in 1996, when it was accrued, as Managing Director. The bonus of £20,000 paid to I Falconer in 1998 was discretionary and relates to his role in 1998 as Finance Director.

Notes

- (1) On 21 December 1998 I P Spratling stepped down as an Executive Director and was appointed a Non-Executive Director.
- (2) On 1 June 1998 M A Alikhani stepped down as Chief Executive and was appointed a Non-Executive Director. On 26 November 1998 M A Alikhani resigned as a Non-Executive Director. M A Alikhani's Non-Executive Director's fees for the period 1 June 1998 to 26 November 1998 of £8,566 have been invoiced by Swan Overseas Plc, a company of which he is a director and shareholder. In July 1998 Swan Overseas Plc invoiced Middlesex Holdings plc and has been paid £30,000 excluding VAT, for the services of M A Alikhani as a consultant to its financial services business. This amount is excluded from the table above.
- (3) J G West's Director's fees for the year ended 31 December 1998 of £20,000 have been invoiced by Jimmy West Associates Limited, a company of which he is a director and shareholder.
- (4) J P A Wolff's Director's fees for the year ended 31 December 1998 of £17,500 have been invoiced by John Wolff International Limited, a company of which he is a director and shareholder.
- (5) M A Winer's Director's fees for the period 6 January 1998 to 21 December 1998 of £16,733 have been invoiced by M. Winer International Limited, a company of which he is a director and shareholder.

The total emoluments of the highest paid Director, A F Moshiri, were £192,000.

J P A Wolff realised a gain of £2,000 on options exercised.

Directors' interests

The Directors' interests, as defined by the Companies Act 1985, in the shares of Middlesex Holdings plc were as follows:

	1996	As at 31 December	1998
	Ordinary shares of 0.25p each	Ordinary shares of 0.25p each	Ordinary shares of 0.25p each
Lord Owen	2,000,000	2,000,000	4,000,000
M A Alikhani – <i>resigned 26 November 1998</i>	84,000,000	94,000,000	–
A F Moshiri	5,874	5,874	17,005,874
I Falconer – <i>appointed 26 June 1997</i>	–	–	100,000
D Hillel – <i>retired 18 August 1997</i>	787,500	–	–
A A Ugarov – <i>appointed 14 April 1997</i>	–	–	40,000,000
J G West	500,000	1,000,000	1,000,000
J P A Wolff	1,781,988	1,781,988	2,281,988
I P Spratling	8,516,129	8,516,129	8,516,129
M A Winer* – <i>appointed 6 January 1998 and</i> <i>– resigned 21 December 1998</i>	–	–	–

* for the period 6 January 1998 to 21 December 1998 M A Winer held 1,349,996 shares of Middlesex Holdings plc.

Of M A Alikhani's shareholding shown in 1996 and 1997 above, 84,000,000 shares are held by Bankhill Trustees Limited, a sole corporate trustee for a settlement established for the benefit of M A Alikhani and his immediate family. On 3 May 1996, Bankhill Trustees Limited granted to Lord Owen an option to acquire up to 6,000,000 ordinary shares of 0.25p in the Company at a price of 6.5p per share. The option was exercisable at any time from 3 May 1996 until 31 October 1998.

Of A F Moshiri's shareholding shown in 1998 above, 16,000,000 shares are held by Bankhill Trustees Limited, as trustees of the Caspian Settlement, a trust for the benefit of A F Moshiri's children.

The 40,000,000 shares disclosed under A A Ugarov in 1998 are held beneficially by Bankhill Trustees Limited as trustees of the Whitland Employee Trust, a discretionary trust for the benefit of A A Ugarov and other Russian based individuals none of whom is employed by or otherwise connected to the Company.

Lord Owen purchased 2,500,000 shares on 11 January 1999.

There have been no other changes in Directors' interests in the ordinary share capital of the Company since 31 December 1998.

Directors' share options

The following unexercised options over ordinary shares were held by Directors under the Executive Share Option Scheme and Employee Share Incentive Schemes (which have since terminated):

	Outstanding 1.1.96	Granted during year	Exercised/ lapsed during year	Outstanding 31.12.96	Exercise price	Date of grant	First date of exercise	Final date of exercise
Lord Owen	4,000,000	—	—	4,000,000	8.1p	25.10.95	25.10.97	24.10.99
M A Alikhani	10,000,000	—	—	10,000,000	1.0p	11.11.93	11.11.93	10.11.97
A F Moshiri	4,000,000	—	—	4,000,000	8.1p	16.12.94	16.12.94	15.12.98
A F Moshiri	10,000,000	—	—	10,000,000	9.0p	13.11.96	13.11.99	12.11.06
P H Edmonds	8,000,000	—	(8,000,000)	—	1.0p	11.11.93	11.11.93	10.11.97
Dr A P Vladislavlev	20,000,000	—	—	20,000,000	4.3p	8.4.94	8.4.94	7.4.98
J P A Wolff	1,000,000	—	—	1,000,000	4.3p	8.4.94	8.4.94	7.4.98
P M Enoch	500,000	—	—	500,000	4.3p	8.4.94	8.4.94	7.4.98

The market price of the Company's ordinary shares at the date of exercise of P H Edmonds' options on 25 September 1996 was 6.875p. At 31 December 1996 the mid-market price of the Company's shares was 6.0p and the range during the year was 9.25p to 5.75p.

The aggregate gain on options exercised by the Director was £460,000.

	Outstanding 1.1.97	Granted during year	Exercised/ lapsed during year	Outstanding 31.12.97	Exercise price	Date of grant	First date of exercise	Final date of exercise
Lord Owen	4,000,000	—	—	4,000,000	8.1p	25.10.95	25.10.97	24.10.99
M A Alikhani	10,000,000	—	(10,000,000)	—	1.0p	11.11.93	11.11.93	10.11.97
A F Moshiri	4,000,000	—	—	4,000,000	8.1p	16.12.94	16.12.94	15.12.98
A F Moshiri	10,000,000	—	—	10,000,000	9.0p	13.11.96	13.11.99	12.11.06
I Falconer – appointed 27.6.97	1,000,000	—	—	1,000,000	9.0p	13.11.96	13.11.99	12.11.06
Dr A P Vladislavlev – retired 18.8.97	20,000,000	—	—	20,000,000	4.3p	8.4.94	8.4.94	7.4.98
J P A Wolff	1,000,000	—	—	1,000,000	4.3p	8.4.94	8.4.94	7.4.98
P M Enoch – retired 18.8.97	500,000	—	(500,000)*	—	4.3p	8.4.94	8.4.94	7.4.98

* exercised following his retirement as a Director.

The market price of the Company's ordinary shares at the date of exercise of P M Enoch's options on 3 November 1997 was 7.0p and M A Alikhani's options on 10 November 1997 was 6.75p. At 31 December 1997 the mid-market price of the Company's shares was 5.0p and the range during the year was 9.0p to 4.75p.

The aggregate gain on options exercised by two Directors (including P M Enoch) was £588,500.

	Outstanding 1.1.98	Granted during year	Exercised/ lapsed during year	Outstanding 31.12.98	Exercise price	Date of grant	First date of exercise	Final date of exercise
Lord Owen	4,000,000	—	—	4,000,000	8.1p	25.10.95	25.10.97	24.10.99
A F Moshiri	4,000,000	—	(4,000,000)	—	8.1p	16.12.94	16.12.94	15.12.98
A F Moshiri	10,000,000	—	—	10,000,000	9.0p	13.11.96	13.11.99	12.11.06
I Falconer	1,000,000	—	—	1,000,000	9.0p	13.11.96	13.11.99	12.11.06
I Falconer	—	2,800,000	—	2,800,000	3.5p	15.7.98	15.7.01	14.7.08
J P A Wolff	1,000,000	—	(1,000,000)	—	4.3p	8.4.94	8.4.94	7.4.98

J P A Wolff exercised options over 500,000 shares on 7 April 1998 and the balance of 500,000 options expired on the same day. A F Moshiri's options over 4,000,000 shares expired on 15 December 1998.

There have been no changes since 31 December 1998.

The market price of the Company's ordinary shares at the date of exercise of J P A Wolff's options on 7 April 1998 was 4.75p. At 31 December 1998 the mid-market price of the Company's shares was 1.25p and the range during the year was 5.5p to 1.25p.

The aggregate gain on options exercised by the Director was £2,000.

Directors' pensions

	Year ended 31 December					
	1996		1997		1998	
	£000	%	£000	%	£000	%
Lord Owen	—	—	18	35	18*	35
A F Moshiri	7	20	14	20	18*	20
I Falconer – as from 27 June 1997	—	—	5	15	9	15
M A Alikhani – until 1 June 1998	14	20	25	20	11	20
	21		62		56	

* subject to a maximum contribution of £17,500 per annum.

	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
Staff costs, including Directors' remuneration:			
Wages and salaries	741	1,621	1,473
Social security costs	73	149	135
Other pension costs	20	182	122
	834	1,952	1,730

	Year ended 31 December		
	1996 Number	1997 Number	1998 Number
Average number of persons employed by the Group in the year, excluding Directors:			
Management	3	8	5
Sales and administration	16	56	28
	19	64	33

11. Intangible fixed assets

	Distribution agreement £000
Cost:	
At 1 January 1996	—
Additions	1,420
At 31 December 1996; 1997 and 1998	1,420
Accumulated depreciation:	
At 1 January 1996	—
Charge for the year	47
At 31 December 1996	47
Charge for the year	142
At 31 December 1997	189
Charge for the year	142
At 31 December 1998	331
Net book value:	
At 31 December 1996	1,373
At 31 December 1997	1,231
At 31 December 1998	1,089

The distribution agreement is the asset of D.R.I. (IOM) Limited. This company was acquired on 20 August 1996. Oskmet (DRI) Limited has undertaken the trades in relation to this distribution agreement on behalf of D.R.I. (IOM) Limited.

12. Tangible fixed assets

	Motor vehicles £000	Plant and machinery £000	Office equipment £000	Total £000
Cost:				
At 1 January 1996	47	—	28	75
Additions	—	1	82	83
Disposals	(1)	(4)	—	(5)
Subsidiary acquired	176	51	68	295
At 31 December 1996	222	48	178	448
Additions	—	47	64	111
Disposals	(41)	(4)	—	(45)
Foreign currency adjustment	(3)	(4)	—	(7)
At 31 December 1997	178	87	242	507
Additions	15	—	10	25
Disposals	(65)	—	(29)	(94)
At 31 December 1998	128	87	223	438
Accumulated depreciation:				
At 1 January 1996	12	—	8	20
Charge for the year	15	1	21	37
Subsidiary acquired	83	26	68	177
Disposal	—	(3)	—	(3)
At 31 December 1996	110	24	97	231
Charge for the year	43	10	31	84
Disposals	(41)	(2)	—	(43)
Foreign currency adjustment	(1)	(2)	—	(3)
At 31 December 1997	111	30	128	269
Charge for the year	26	10	34	70
Disposals	(52)	—	(5)	(57)
Foreign currency adjustment	—	—	4	4
At 31 December 1998	85	40	161	286
Net book value:				
At 31 December 1996	112	24	81	217
At 31 December 1997	67	57	114	238
At 31 December 1998	43	47	62	152

The net book value of tangible fixed assets at 31 December 1996 includes an amount of £9,000 in respect of motor vehicles held under finance leases.

13. Investments

Trade investments

Cost after provisions for impairment:

	Investment £000	Loans £000	Total £000
At 1 January 1996	306	—	306
Additions	2,540	—	2,540
Disposals	(4)	—	(4)
At 31 December 1996	2,842	—	2,842
Additions	4,185	—	4,185
At 31 December 1997	7,027	—	7,027
Additions	7,294	—	7,294
Provisions made during the year	(762)	—	(762)
At 31 December 1998	13,559	—	13,559

Associated undertakings

Cost:

At 1 January 1996	239	249	488
Subsidiary acquired	2,782	274	3,056
Loans advanced	—	246	246
Loans repaid	—	(149)	(149)
At 31 December 1996	3,021	620	3,641
Additions	385	—	385
Disposals	(466)	—	(466)
Loans advanced	—	608	608
At 31 December 1997	2,940	1,228	4,168
Disposal	(624)	(2)	(626)
Loans repaid	—	(1,153)	(1,153)
At 31 December 1998	2,316	73	2,389
Share of (losses)/profits and reserves			
At 1 January 1996	(83)	—	(83)
Losses for the year before interest payable	(396)	—	(396)
Interest payable	(51)	—	(51)
Taxation	23	—	23
Share of dividend	(35)	—	(35)
Unrealised surplus on revaluation of investment in investment property	486	—	486
Goodwill on acquisition written off to reserves	(415)	—	(415)
Foreign exchange translation	53	—	53
At 31 December 1996	(418)	—	(418)
Profits for the year before interest payable	20	—	20
Interest payable	(720)	—	(720)
Taxation	(92)	—	(92)
Share of dividends	(172)	—	(172)
Foreign exchange translation	7	—	7
At 31 December 1997	(1,375)	—	(1,375)
Profit for the year before interest payable	219	—	219
Interest payable	(344)	—	(344)
Taxation	(60)	—	(60)
Share of dividends	(73)	—	(73)
Disposals	1,742	—	1,742
At 31 December 1998	109	—	109

	Investment £000	Loans £000	Total £000
Net book value			
At 31 December 1996	2,603	620	3,223
At 31 December 1997	1,565	1,228	2,793
At 31 December 1998	2,425	73	2,498
Total investments			
At 31 December 1996	5,445	620	6,065
At 31 December 1997	8,592	1,228	9,820
At 31 December 1998	15,984	73	16,057

	£000
Additions to trade investments in 1996 are:	
3% of Oskol Electrometallurgical Kombinat	2,082
0.95% of Forestrealm Limited	136
1.1% of Northern Maritime Property Investments Limited	322
	2,540

	£000
Additions to trade investments in 1997 are:	
4.9% of Oskol Electrometallurgical Kombinat	4,179
0.02% of Northern Maritime Property Investments Limited	6
	4,185

	£000
Additions to associated undertakings in 1997 are:	
23.4% investment in Dominion Energy PLC	385

	£000
Disposals of associated undertakings in 1997 are:	
50% Acier Wolff Canada Inc.	36
50% Amari Wolff Steel Pty Limited	430
	466

	£000
Additions to trade investments in 1998 are:	
6.6% of Oskol Electrometallurgical Kombinat	5,465
2.0% of Lebedinsky GOK	1,829
	7,294

	£000
Disposals of associated undertakings in 1998 are:	
45% investment in Agrifarm International Limited	239
23.4% investment in Dominion Energy PLC	385
	624

The investment in Oskol Electrometallurgical Kombinat was acquired by Revenant Limited, a 60 per cent. owned subsidiary.

1998
£000

Total investments at cost after provision for impairment:

Trade investments:

Oskol Electrometallurgical Kombinat	11,726
Lebedinsky GOK	1,829
Riceman Insurance Investments plc	4
	<hr/>
	13,559

Associated undertakings:

Afon Tinplate Company Limited	2,265
ISE International Furniture Limited	233
	<hr/>
	2,498
	<hr/>
	16,057

Trade investments comprise:

	Activity	Country of incorporation	Proportion of ordinary shares held		
			1996	1997	1998
Forestrealm Limited	Gold mining	Great Britain	20.9%	20.9%	20.9%
Northern Maritime Property Investments Limited	Gold mining	Great Britain	20.9%	20.9%	20.9%
MBA Energy	Dormant	CIS	20.0%	20.0%	20.0%
Riceman Insurance Investments plc	Insurance management	Great Britain	5.7%	5.7%	5.7%
CTSC MIFK Interfin	Financial services	CIS	40.0%	40.0%	40.0%
Oskol Electrometallurgical Kombinat	Steelworks	CIS	3.0%	7.9%	14.5%
Lebedinsky GOK	Iron ore mine	CIS	—	—	2.0%

The shareholding in Oskol Electrometallurgical Kombinat ("OEMK") is owned by Revenant Limited, a 60 per cent. subsidiary of the Company. 8.0 per cent. of the 14.5 per cent. shareholding in OEMK held by Revenant Limited is the subject of a Share Retention Agreement (the "Agreement") dated 4 August 1998 between the Company and the European Bank for Reconstruction and Development ("EBRD"). The Agreement states that the Company undertakes not to dispose of this 8 per cent. shareholding in OEMK for a period of eight years without written agreement from the EBRD. The signing of the Agreement was one of the pre-conditions of the EBRD making its first disbursement of the US\$110 million loan facility it had extended to OEMK for project finance. To date the EBRD has not yet made the first disbursement and the Company is negotiating with the EBRD to cancel this Agreement.

Riceman Insurance Investments plc is traded on the London Stock Exchange under the Alternative Investment Market. The closing mid-market price for ordinary shares in the company at 31 December 1996 was 18.5p giving an aggregate market value of £694,000, which is above cost. At 31 December 1997 the mid-market price for ordinary shares was 20.0p giving an aggregate market value of £750,000 which is above cost. At 31 December 1998 the mid-market price for ordinary shares was 5.5p, giving an aggregate market value of £206,000 which is above cost.

Forestrealm Limited, Northern Maritime Property Investments Limited, CTSC MIFK Interfin and MBA Energy are not associated undertakings as defined in FRS 9. The businesses of these companies are based entirely in the CIS as are the majority shareholders. The majority shareholders control the operating and financial policies of the companies and the Company does not have a significant influence in relation to these policies.

The principal associated undertakings comprise:

	Activity	Country of incorporation	Description of shares held	Percentage holding and voting rights
Agrifarm International Limited – <i>disposed of in 1998</i>	Agricultural investment and management	Great Britain	Ordinary shares of £	45%*
Dominion Energy PLC – <i>acquired 1997 and disposed of in 1998</i>	Oil and gas management	Great Britain	Ordinary shares of 5p	23.4%
Afon Tinplate Company Limited	Steel and steel products	Great Britain	Ordinary shares of £1	36%
L M Holding Company Inc.	Steel and steel products	USA	Common stock of US\$100	40%
ISE International Furniture Limited	Manufacture of furniture	Great Britain	Ordinary shares of £1	26%
Acier Wolff Canada Inc. – <i>disposed of in 1997</i>	Steel and steel products	Canada	Class “A” common shares and class “E” preferred shares of Can\$1	50%
Amari Wolff Steel Pty Limited – <i>disposed of in 1997</i>	Steel and steel products	Australia	Ordinary shares of Aus\$1	50%

* increased from 40 per cent. to 45 per cent. in 1997.

These companies operate principally in their country of incorporation, except for Agrifarm International Limited, which operates world-wide and Dominion Energy PLC which operates in the United States of America.

Dominion Energy PLC is traded on the London Stock Exchange. At 31 December 1997 the closing mid-market price for ordinary shares in the company was 11.0p, giving an aggregate market value of £1,210,000.

The Group's share of net assets of principal associated undertakings comprise:

	1998 £000
Afon Tinplate Company Limited	2,192
ISE International Furniture Limited	233
	<hr/> 2,425

The aggregate results of the Group's principal associated undertakings and the share of interest payable and profits/(losses) after tax attributable to the Group are as follows:

	Continuing operations £000	Discontinued operations £000	1998 Total £000
Sales	36,245	472	36,717
Profit/(loss) before interest	1,360	(1,151)	209
Interest payable	(671)	(418)	(1,089)
Profit/(loss) before tax	689	(1,569)	(880)
Taxation	(187)	–	(187)
Net profit/(loss) on ordinary activities	502	(1,569)	(1,067)
Group's share of interest payable	(246)	(98)	(344)
Group's share of profit/(losses) after tax	191	(376)	(185)

The aggregate share of net assets of the Group's principal associated undertakings and the share of net assets attributable to the Group are as follows:

	1998 £000
Tangible assets	5,644
Investments	664
Current assets	12,111
Current liabilities	(7,628)
	<hr/> 10,791
Less: Long term debt	(4,158)
	<hr/> 6,633
Group's share	<hr/> 2,425

Share of profits/(losses) in associated undertakings less taxation and share of dividends for the year ended 31 December 1998 comprise:

	Share of profits/ (losses) in associated undertakings £000	Taxation charge £000	Share of dividends £000	1998 Total £000
Continuing operations:				
Afon Tinsplate Company Limited	185	(40)	(73)	72
ISE International Furniture Limited	66	(20)	–	46
	<hr/> 251	<hr/> (60)	<hr/> (73)	<hr/> 118
Discontinued operations:				
Agrifarm International Limited	(179)	–	–	(179)
Dominion Energy PLC	(197)	–	–	(197)
	<hr/> (376)	<hr/> –	<hr/> –	<hr/> (376)
	<hr/> (125)	<hr/> (60)	<hr/> (73)	<hr/> (258)
				<hr/> 1998 £000
Amounts owed by associated undertaking:				
Afon Tinsplate Company Limited				<hr/> 73

Subsidiary companies

As at 31 December 1998 the principal subsidiary companies, together with the percentage holding in each, were as follows:

(i) Held by the Company

	Activity	Country of incorporation	Portion of ordinary shares not held by the Company and voting rights	Country of operation
Cygnat Metals Limited	Non - trading	Great Britain	0%	–
Swan Metals (Jersey) Limited	Non - trading	Jersey	40%	–
Clogau (Nevada) Inc.	Gold mining	USA	0%	USA
Portsmouth Metals Limited	Metals and oil trading	Bermuda	0%	Worldwide
Middlesex OEMK plc	Investment holding company	Great Britain	49%	Great Britain
Middlesex Corporate Finance plc	Non - trading	Great Britain	0%	–
The Carnarvon Mining Company Limited*	Dormant	Great Britain	0%	–
Revenant Limited	Investment holding	Jersey	40%	CIS
Oskmet (DRI) Limited	Metals trading	Great Britain	0%	Worldwide
D.R.I. (IOM) Limited	Metals trading	Isle of Man	0%	Worldwide
Wolff Steel Limited	Steel and steel products	Great Britain	0%	Great Britain

(ii) Held by the Group

		Country of incorporation	Effective ordinary shares not held by the Group and voting rights	Country of operation
Clogau Gold Mines Limited*	Dormant	Great Britain	0%	—
Oskmet (UK) Limited	Metals trading	Great Britain	49%	Worldwide
George A Stevenson Limited*	Non – trading	Great Britain	0%	—
Wolff Australia Pty Limited	Steel and steel products	Australia	0%	Australia
Middlesex (U.S.A.) Inc.	Steel and steel products	USA	40%	Worldwide
Wolff Pipelines Limited	Steel and steel products	Great Britain	50%	Great Britain
Wolff Inova Limited	Steel and steel products	Great Britain	50%	Great Britain

* being struck off in 1999.

On 20 August 1996, the Company acquired 100 per cent. of the share capital of D.R.I. (IOM) Limited.

On 25 October 1996, the Company acquired 100 per cent. of the share capital of Wolff Steel Limited which has the following subsidiaries – George A Stevenson Limited, Wolff Australia Pty Limited, Wolff Pipelines Limited, and Wolff Inova Limited. J P A Wolff, a director of the Company, was also a director and shareholder of Wolff Steel Limited. These two acquisitions have been accounted for by the acquisition method.

Further details of the acquisitions are set out below:

	Wolff Steel Limited £000	D.R.I. (IOM) Limited £000
Net assets acquired		
Tangible fixed assets	118	—
Investments	3,056	—
Stocks	2,389	—
Debtors	2,287	—
Cash at bank and in hand	88	—
Creditors	(2,216)	—
Bank overdrafts	(564)	—
Loans and finance leases	(86)	—
Minority shareholders' interests	(19)	—
	5,053	—
Fair value adjustment	—	1,420
	5,053	1,420
Negative goodwill – credited to profit and loss account	(1,098)	—
	3,955	1,420
Satisfied by:		
Shares allotted	1,900	1,400
Deposited Loan Stock 2006 issued	850	—
Cash	1,205	20
	3,955	1,420

The fair value adjustment is for the distribution agreement owned by D.R.I. (IOM) Limited.

The summarised profit and loss account and the statement of total recognised gains and losses for Wolff Steel Limited for the period from 1 January 1996 (the date the financial year began) to 25 October 1996 are as follows:

	£000
Turnover	11,564
Operating profit	217
Profit before tax	504
Taxation	(174)
Profit after tax	330
Minority interest	(16)
Profit for the period	314
Profit on ordinary activities after taxation and minority interest	314
Dividends	(34)
Unrealised deficit on revaluation of investment in associated undertaking	(105)
Currency translation differences on foreign currency net investments	5
Total gains and losses recognised in the period	180

The profit after tax and minority interest for Wolff Steel Limited for the year ended 31 December 1995 was £559,000.

D.R.I. (IOM) Limited did not trade prior to acquisition.

14. Mining lease

The Group owns, through its subsidiary Clogau (Nevada) Inc., leases of mining properties in the USA which are included in the consolidated balance sheet at cost, less provision for impairment to carrying value, of 31 December 1996: £1,660,000; 31 December 1997: £1,000,000 and 31 December 1998: £10,000.

15. Stocks

	As at 31 December		
	1996 £000	1997 £000	1998 £000
Goods for resale – steel and steel products	2,164	2,217	1,828

16. Debtors

	As at 31 December		
	1996 £000	1997 £000	1998 £000
Amounts falling due within one year:			
Trade debtors	16,617	18,525	12,057
Advance corporation tax	212	212	36
Corporation tax recoverable	6	44	306
Other debtors	29,754	9,757	840
Prepayments and accrued income	183	119	1
	46,772	28,657	13,240
Amounts falling due after more than one year:			
Advance corporation tax	603	200	–
Corporation tax recoverable	–	17	–
Other debtors	–	18,093	–
	603	18,310	–
	47,375	46,967	13,240

Group trade debtors at 31 December 1996 of £5,039,000; 31 December 1997: £14,586,000 and 31 December 1998: £10,312,000 are charged as security for bank and other loans.

Included in amounts falling due within one year: other debtors at 31 December 1996 is £15,451,00 due from Oskol Electrometallurgical Kombinat; 31 December 1997– £7,770,000 and 31 December 1998: £nil.

Included in amounts falling due within one year: other debtors at 31 December 1996 is £12,128,991 due from CTSC MIFK Interfin; 31 December 1997: amounts falling due after more than one year – other debtors – £17,016,000 and 31 December 1998: £nil.

Included in amounts falling due within one year: other debtors at 31 December 1996 is an amount of £5,000 due from I P Spratling, a then Executive Director of the Company.

Included in amounts falling due within one year: other debtors at 31 December 1997 is £510,00 due from Balli Trading Limited.

17. Creditors: amounts falling due within one year

	As at 31 December		
	1996 £000	1997 £000	1998 £000
Bank overdraft	815	1,282	1,529
Bank loans	6,889	17,003	2,536
Other loans	16,609	8,002	5,891
Deposited Loan Stock 2006	827	744	645
Obligations under finance leases	10	–	–
Trade creditors	3,434	3,263	2,317
Corporation tax	1,843	2,834	940
Advance corporation tax	815	1,284	964
Other tax and social security	79	30	23
Other creditors	451	403	4,340
Accruals and deferred income	1,125	485	1,186
Government grant repayable	84	84	–
Proposed dividend	799	–	–
	33,780	35,414	20,371

The bank overdrafts of a subsidiary undertaking and its subsidiaries and associates are secured by a fixed and floating charge over their assets. One of the Company's bank loans, amounting to £1,455,000 at 31 December 1997 and £98,000 at 31 December 1998 is secured on the Company's investment in Riceman Insurance Investments plc in both 1997 and 1998 and on the Company's investment in Dominion Energy PLC in 1997. The Group's bank loans amounting to £2,516,000 at 31 December 1996; £10,174,000 at 31 December 1997 and £1,827,000 at 31 December 1998 are secured on trade debtors.

The Group's other loans include loans from minority shareholders in subsidiaries and are as follows:

- | | |
|-----------------------------|--|
| Sir David Alliance | <ul style="list-style-type: none"> – 31 December 1996: £4,251,000; 31 December 1997: £4,776,000 and 31 December 1998: £5,084,000 interest is payable at 8 per cent. per annum on 31 December 1996: £4,094,000; 31 December 1997: £4,242,000 and 31 December 1998: £4,217,000 and the loan is repayable on six months written demand; – 31 December 1996: £2,193,000; 31 December 1997: £2,273,000 and 31 December 1998: £nil interest is payable at 10 per cent. and the loan is repayable on demand; and – 31 December 1996: £19,000; 31 December 1997: £20,000 and 31 December 1998: £nil current account which bears no interest and is repayable on demand. |
| Wmac Investment Corporation | <ul style="list-style-type: none"> – 31 December 1996: £667,000; 31 December 1997: £691,000 and 31 December 1998: £686,000 accrued interest at 10 per cent. per annum for part of 1996 and for 1997 and 1998 is interest free and the loan is repayable within one year. |
| Balli Trading Limited | <ul style="list-style-type: none"> – 31 December 1996: £8,826,000 and 31 December 1997: £nil interest is payable at a variable rate, which for the years ended 31 December 1996 and 31 December 1997 was 6.875 per cent. per annum, and the loan is repayable on demand. – 31 December 1996: £653,000 and 31 December 1997: £nil current account, interest payable at a variable rate, which for the years ended 31 December 1996 and 31 December 1997 was 6.875 per cent. per annum, and the current account is repayable on demand. |

The Balli Trading Limited loan at 31 December 1996 of £8,826,000 is secured on trade and other debtors.

Included in other creditors at 31 December 1997 is £nil and 31 December 1998 is £2,926,000 due to Oskol Electrometallurgical Kombinat.

The Deposited Loan Stock 2006 is repayable to the stockholders on 14 days notice.

18. Creditors: amounts falling due after more than one year

	As at 31 December		
	1996 £000	1997 £000	1998 £000
Other loan	75	75	75
Long term employee benefits	—	2	—
	<u>75</u>	<u>77</u>	<u>75</u>

The other loan is an unsecured loan of £75,000 at 31 December 1996; 31 December 1997 and 31 December 1998, which is interest free and is redeemable on 30 June 2000.

Finance leases

The net finance lease obligations to which the Group is committed are:

	As at 31 December		
	1996 £000	1997 £000	1998 £000
In one year or less	10	—	—

19. Provisions for liabilities and charges – deferred taxation

	As at 31 December		
	1996 £000	1997 £000	1998 £000
At 1 January	858	1,869	1,237
Debit/(credit) to profit and loss account	799	(632)	(1,237)
Other movements	212	—	—
At 31 December	<u>1,869</u>	<u>1,237</u>	<u>—</u>

The amount of deferred tax provided for in the financial statements and the potential amount not provided are:

	As at 31 December		
	1996 £000	1997 £000	1998 £000
Short term timing difference	1,869	1,237	—

The Group had unprovided deferred tax at 31 December 1996 of capital allowances in excess of depreciation – £15,000 debit and losses – £338,000 debit. The Group had no unprovided deferred tax at 31 December 1997 and 31 December 1998.

20. Called up share capital

	1996		As at 31 December 1997		1998	
	£000	Number	£000	Number	£000	Number
Authorised:						
Ordinary shares of 0.25p each	2,800	1,120,000,000	2,800	1,120,000,000	2,800	1,120,000,000
Allotted, called up and fully paid:						
Ordinary shares of 0.25p each	1,999	799,406,234	2,025	809,906,234	2,026	810,406,234

On 25 October 1996 the shareholders of the Company passed an Ordinary Resolution to increase the authorised share capital of the Company from £2.1 million to £2.8 million by the creation of 280 million new ordinary shares of 0.25 p each, such shares to form one class with the existing ordinary shares of the Company.

Movement in share capital in the year – shares issued:

Date	Number of shares	Consideration received £000	Reason
6 August 1996	35,600,000	2,163	Placement of shares
20 August 1996	20,000,000	–	100% of the share capital of D.R.I. (IOM) Limited
25 September 1996	8,000,000	80	Exercise of options
25 October 1996	24,516,129	–	50% of the share capital of Wolff Steel Limited
5 December 1996	29,379,688	2,057	Exercise of Wmac Investment Corporation warrants
3 November 1997	500,000	21	Exercise of options
10 November 1997	10,000,000	100	Exercise of options
7 April 1998	500,000	22	Exercise of options

Wmac Investment Corporation is the minority shareholder in Swan Metals (Jersey) Limited. The instances where shares were allotted for cash, the proceeds were used for working capital. The options exercised were granted under the Executive and Employee Share Incentive Schemes, which have since terminated.

On 25 October 1996, shareholders approved the issue of warrants to subscribe for ordinary shares of the Company to the vendor of D.R.I. (IOM) Limited. The warrants entitle the holder to subscribe for 20 million new ordinary shares at 10p per share. The warrants can be exercised at any time during the period commencing on the date which is twenty business days after the audited financial statements of D.R.I. (IOM) Limited for the financial year ended 31 December 1998 shall have been approved in general meeting and expiring on the third anniversary of the same provided that the audited net profits for D.R.I. (IOM) Limited, for the period from 20 August 1996 to 31 December 1998, exceed US\$7.0 million. The warrants may only be exercised in multiples of 10,000. The warrants will not be exercised as the required profits have not been achieved.

The following options to subscribe for ordinary shares have been granted under the Executive Share Option Scheme, and the Executive and Employee Share Incentive Schemes ("the Option Schemes") to 22 employees as at 31 December 1996; 21 employees as at 31 December 1997 and 12 employees as at 31 December 1998:

Year of Grant	Exercise period	Exercise Price per Share	1996 Number	1997 Number	1998 Number
1993	11 November 1993 to 10 November 1997	1.0p	10,000,000	—	—
1994	8 April 1994 to 7 April 1998	4.3p	27,582,708	27,082,708	—
1994	16 December 1994 to 15 December 1998	8.1p	11,450,000	10,250,000	—
1995	25 October 1997 to 24 October 1999	8.1p	4,000,000	4,000,000	4,000,000
1996	13 November 1999 to 12 November 2006	9.0p	12,000,000	12,000,000	11,000,000
1997	11 December 2000 to 10 December 2007	5.25p	—	1,400,000	1,050,000
1998	15 July 2001 to 14 July 2008	3.5p	—	—	25,975,000
1998	5 August 2001 to 4 August 2008	4.25p	—	—	750,000
			65,032,708	54,732,708	42,775,000

The unexercised share options over ordinary shares held by the Directors under the Option Schemes are disclosed in Note 10. Those held by the Employees are as follows:

Outstanding 1.1.96	Granted during year	Lapsed during year	Exercised during year	Outstanding 31.12.96	Exercise price	Date of grant	First date of exercise	Final date of exercise
6,082,708	—	—	—	6,082,708	4.3p	8.4.94	8.4.94	7.4.98
12,000,000	—	(4,550,000)	—	7,450,000	8.1p	16.12.94	16.12.94	15.12.98
—	2,000,000	—	—	2,000,000	9.0p	13.11.96	13.11.99	12.11.06
Outstanding 1.1.97				Outstanding 31.12.97				
6,082,708	—	—	—	6,082,708	4.3p	8.4.94	8.4.94	7.4.98
7,450,000	—	(1,200,000)	—	6,250,000	8.1p	16.12.94	16.12.94	15.12.98
1,000,000	—	—	—	1,000,000	9.0p	13.11.96	13.11.99	12.11.06
—	1,400,000	—	—	1,400,000	5.25p	11.12.97	11.12.00	10.12.07
Outstanding 1.1.98				Outstanding 31.12.98				
6,082,708	—	(6,082,708)	—	—	4.3p	8.4.94	8.4.94	7.4.98
6,250,000	—	(6,250,000)	—	—	8.1p	16.12.94	16.12.94	15.12.98
1,000,000	—	(1,000,000)	—	—	9.0p	13.11.96	13.11.99	12.11.06
1,400,000	—	(350,000)	—	1,050,000	5.25p	11.12.97	11.12.00	10.12.07
—	23,200,000	(25,000)	—	23,175,000	3.5p	15.7.98	15.7.01	14.7.08
—	750,000	—	—	750,000	4.25p	5.8.98	5.8.01	4.8.08

21. Share premium account

	As at 31 December		
	1996 £000	1997 £000	1998 £000
At 1 January	6,896	14,172	14,267
Premium on issue of shares during the year	7,306	95	21
Expense of issue	(30)	—	—
At 31 December	14,172	14,267	14,288

22. Revaluation reserve

	Investment property £000	Investment £000	Total £000
At 1 January 1996	—	—	—
Unrealised surplus on revaluation of investment in associated undertaking	—	22	22
Unrealised surplus on revaluation of investment property in associated undertaking	464	—	464
At 31 December 1996	464	22	486
Transfer to profit and loss account on realisation of interest in associated undertaking	—	(22)	(22)
At 31 December 1997	464	—	464
Transfer to profit and loss account on realisation of interest in associated undertaking	(464)	—	(464)
At 31 December 1998	—	—	—

Amari Wolff Pty Limited in which the Group had a 50 per cent. holding as at 31 December 1996 is party to a legal agreement whereby it effectively has a put option giving it the ability to dispose of its investment in an associated company New Zealand Steel (Australia) Pty Limited at any time for a price based on the earnings of the associated company. The current selling value approximates to the current carrying value of the investment, which amounts to £831,000 in the accounts of Amari Wolff Steel Pty Limited at 31 December 1996.

Under the agreement there is also effectively a call option over the investment which, if exercised, will require the investment to be sold at the same price as that calculated under the above formula.

For the purposes of the 31 December 1996 consolidated financial statements the Group's share of the revaluation surplus has been credited to a revaluation reserve.

The 50 per cent. holding in Amari Wolff Pty Limited, which included its investment in the associated company New Zealand Steel (Australia) Pty Limited was disposed of in 1997.

23. Profit and loss account

	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
1 January	5,934	8,816	7,554
Unrealised exchange loss arising from translation of interests expressed in foreign currency	(1,422)	444	(202)
Negative goodwill – subsidiary	1,098	—	—
Goodwill written off in associated undertaking	(415)	—	—
Goodwill arising on acquisition of interest in associated undertaking which has subsequently been sold	—	—	415
Retained profit/(loss) for the financial year	3,621	(1,728)	(13,444)
Transfer from revaluation reserve	—	22	464
At 31 December	8,816	7,554	(5,213)

24. Reconciliation of movements in shareholders' funds

	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
Profit/(loss) for the financial year	4,420	(1,728)	(13,444)
Proposed dividend	(799)	—	—
Unrealised exchange (loss)/gain arising from translation of interests expressed in foreign currency	(253)	444	(202)
Goodwill arising on acquisition of interest in associated undertaking which has subsequently been sold	—	—	415
Issue of ordinary share capital	7,600	121	22
Expenses of issue	(30)	—	—
Net addition to/(reduction in) shareholders' funds	10,938	(1,163)	(13,209)
Opening shareholders' funds	14,535	25,473	24,310
Closing shareholders' funds	25,473	24,310	11,101

25. Basic earnings/(loss) per ordinary share and diluted earnings/(loss) per ordinary share

The calculation of basic earnings/(loss) per share for the year ended 31 December 1996 is based on profit/(loss) after taxation and minority interest of £4,420,000; 31 December 1997: £(1,728,000) and 31 December 1998: £(13,444,000) and on 712,383,500; 31 December 1997: 800,884,316 and 31 December 1998: 810,273,357 ordinary shares being the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings/(loss) per share for the year ended 31 December 1996 is based on the adjusted profit/(loss) after taxation and minority interest of £4,420,000; 31 December 1997: £(1,728,000) and 31 December 1998: £(13,444,000) and on 731,593,979 31 December 1997: 791,768,357 and 31 December 1998: 771,994,191 ordinary shares being the weighted average number of ordinary shares in issue, dilutive share options and warrants outstanding during the year.

26. Consolidated cash flow statement

	Year ended 31 December		
	1996 £000	1997 £000	1998 £000
(a) Reconciliation of operating profit/(loss) to cash (outflow)/inflow from operating activities			
Operating profit/(loss)	9,233	2,364	(13,181)
Depreciation and amortisation charges	84	226	212
Decrease/(increase) in stocks	313	(53)	389
(Increase)/decrease in debtors	(17,191)	(7,621)	25,826
Increase/(decrease) in creditors	680	(844)	434
Provision against mining leases	—	660	990
Profit on sale of trade investment	(590)	—	—
Currency translation differences on foreign currency assets and liabilities	1,687	586	(272)
Cash (outflow)/inflow from operating activities	(5,784)	(4,682)	14,398

		Year ended 31 December		
		1996	1997	1998
		£000	£000	£000
(b)	Analysis of cash flows from headings netted in the cash flow statement			
	Returns on investments and servicing of finance			
	Interest received	659	302	227
	Interest paid	(1,104)	(995)	(793)
	Dividends paid to minority shareholders in subsidiary undertaking	—	(2,087)	—
	Interest element of finance lease rentals	(1)	—	—
	Net cash outflow for returns on investments and servicing of finance	(446)	(2,780)	(566)
	Net cash (outflow)/inflow from capital expenditure and financial investment			
	Purchase of tangible fixed assets	(83)	(111)	(21)
	Sale of tangible fixed assets	2	2	18
	Purchase of trade investments	(2,540)	(4,185)	(7,111)
	Sale of trade investments	594	—	—
	Sale of investment property	202	—	—
	Loans (advanced to)/recovered from associated undertakings	(97)	(608)	1,153
	Purchase of associated undertaking	—	(385)	—
	Sale of associated undertaking	—	553	239
	(Loan to)/recovery of loan to and loan advanced by Oskol Electrometallurgical Kombinat	(15,451)	8,243	10,649
	Net cash (outflow)/inflow from capital expenditure and financial investment	(17,373)	3,509	4,927
	Financing			
	Issue of ordinary shares	4,270	121	22
	Issue of shares to minorities	3,317	—	—
		7,587	121	22
	Increase/(decrease) in debt due within one year	12,484	283	(16,764)
	Capital element of finance lease rental payments	(1)	(10)	—
		12,483	273	(16,764)
	Net cash inflow/(outflow) from financing	20,070	394	(16,742)

(c)	Analysis of net debt						
		At 1 January 1996 £000	Cash flow £000	Acquisition (excl. cash and overdrafts) £000	Other non-cash changes £000	Exchange movements £000	At 31 December 1996 £000
	Cash at bank and in hand	12,705	(5,330)	—	—	(1,221)	6,154
	Bank overdrafts	—	(815)	—	—	—	(815)
		12,705	(6,145)	—	—	(1,221)	5,339
	Debt due after one year	—	—	(75)	—	—	(75)
	Debt due within one year	(9,677)	(12,484)	—	(433)*	(904)	(23,498)
	Finance leases	—	1	(11)	—	—	(10)
		3,028	(18,628)	(86)	(433)	(2,125)	(18,244)

* the other non-cash changes relates to interest accruing on debt due within one year which has not been paid in cash.

At 31 December 1996: £3,383,000 of the Group's funds were with a Moscow bank.

	At 1 January 1997 £000	Cash flow £000	Other non-cash changes £000	Exchange movements £000	At 31 December 1997 £000
Cash at bank and in hand	6,154	(3,681)	—	212	2,685
Bank overdrafts	(815)	(466)	—	(1)	(1,282)
	5,339	(4,147)	—	211	1,403
Debt due after one year	(75)	—	—	—	(75)
Debt due within one year	(23,498)	(283)	(368)*	(856)	(25,005)
Finance leases	(10)	10	—	—	—
	(18,244)	(4,420)	(368)	(645)	(23,677)

* the other non-cash changes relates to interest accruing on debt due within one year which has not been paid in cash.

	At 1 January 1998 £000	Cash flow £000	Other non-cash changes £000	Exchange movements £000	At 31 December 1998 £000
Cash at bank and in hand	2,685	(164)	—	(16)	2,505
Bank overdrafts	(1,282)	(250)	—	3	(1,529)
	1,403	(414)	—	(13)	976
Debt due after one year	(75)	—	—	—	(75)
Debt due within one year	(25,005)	16,764	(337)*	151	(8,427)
	(23,677)	16,350	(337)	138	(7,526)

* the other non-cash changes relates to interest accruing on debt due within one year which has not been paid in cash.

Major non-cash transactions:

The consolidated cash flow statement for the year ended 31 December 1996 does not include the following non-cash transactions:

- (i) On 20 August 1996 the Company issued 20,000,000 ordinary shares of 0.25 p at price of 7.0p per share in consideration for the acquisition of D.R.I. (IOM) Limited.
- (ii) On 25 October 1996 the Company issued 24,516,129 ordinary shares of 0.25 p each at a price of 7.75p per share and £850,000 Deposited Loan Stock 2006 in consideration for the acquisition of Wolff Steel Limited.
- (d) Analysis of the net outflow of cash in respect of the purchase of subsidiary undertakings.

	Year ended 31 December 1996 £000
Cash consideration	1,225
Cash at bank and in hand acquired	(88)
Bank overdrafts of acquired subsidiary undertakings	564
Net cash outflow of cash in respect of the purchase of subsidiary undertakings	1,701

The net cash outflow from operating activities in respect of subsidiary undertakings acquired during the year was £103,000. These subsidiaries received £20,000 in respect of net returns on investments and servicing of finance; paid £19,000 in respect of taxation; received £1,000 for investing activities and utilised £1,000 for financing.

27. Commitments

In accordance with a steel supply and pre-export agreement the Group is committed to purchase, from OEMK, steel for immediate re-sale to customers, of up to £14,620,000 at 31 December 1996; £15,152,000 at 31 December 1997 and £15,060,000 at 31 December 1998.

At 31 December 1996; 31 December 1997 and 31 December 1998 the Group had no capital commitments.

28. Contingent liabilities and guarantees

As at 31 December 1996 Swan Metals (Jersey) Limited's bank held a debenture over all its assets and a charge over its credit balance in lieu of any borrowings which it may have from the bank. This debenture was released by the bank on 26 March 1997.

Oskmet (UK) Limited's ("Oskmet") bank has a charge over all its assets as security for any borrowings which Oskmet may have from the bank. The Borrowings under their facility at 31 December 1996 were £2,516,000; at 31 December 1997 were £950,000 and at 31 December 1998 were £538,000.

Middlesex OEMK plc and Oskmet have a cross guarantee for bank borrowings of up to £7,310,000 at 31 December 1996; £7,576,000 at 31 December 1997 and £7,530,000 at 31 December 1998.

Wolff Steel Limited has provided guarantees in respect of bank borrowings of certain of its subsidiaries and associated undertakings. At 31 December 1996 the maximum liability under the guarantees was approximately £737,000; 31 December 1997: £1.7 million and 31 December 1998: £1.6million.

The investment in New Zealand Steel (Australia) Pty Limited owned by Amari Wolff Steel Pty Limited is carried at valuation. If the investment had been sold at the 31 December 1996 balance sheet date at its revalued amount, capital gains tax of £378,000 would have been payable by Amari Wolff Steel Pty Limited, of which the Group's share would have been £145,000. In 1997 the 50 per cent. investment in Amari Wolff Steel Pty Limited, which included its investment in the associated undertaking, New Zealand Steel (Australia) Pty Limited, was disposed of and as a result the capital gains tax liability did not become payable.

Wolff Steel Limited had entered into forward exchange contracts at 31 December 1996, which had a value of £96,000.

On 17 June 1996 Agrifarm International Limited ("Agrifarm") entered into a contract with Claas KgaA, of Harsewinkel, Germany and the Company guaranteed Agrifarm's performance of all its payment obligations. At 31 December 1996 Agrifarm's outstanding obligations were £314,000. On 13 February 1998 the Company was released from this guarantee.

29. Operating lease commitments

The Group was committed to making the following payments during the next year in respect of operating leases.

	At 31 December					
	Land and buildings 1996 £000	Other 1996 £000	Land and buildings 1997 £000	Other 1997 £000	Land and buildings 1998 £000	Other 1998 £000
Leases which expire:						
Within one year	17	—	—	—	—	6
Within two to five years	17	9	22	9	24	—
Over five years	74	—	110	—	118	—
	108	9	132	9	142	6

30. Pension scheme

Wolff Steel Limited operates a defined contribution scheme. The employer's contribution rate is 6 per cent. of basic salary excluding bonuses. The contribution rate can be varied at the discretion of the employer. Contributions to the Group's Directors pensions are set out in Note 10.

31. Related party transactions

During the years, which are reported on in this Part of the document, the following related party transactions took place:

In the year ended 31 December 1996 the Company paid £22,000 to Auerbach Hope, a firm of Chartered Accountants in which D Hillel, who was then an Executive Director of the Company, was a partner, for accounting services.

Debtors at 31 December 1996 include an amount of £5,000 due from I P Spratling, who was then an Executive Director of the Company. This amount was repaid in 1997. The maximum amount outstanding during the period he was an Executive Director of the company was £5,000. No interest was charged on the amounts outstanding.

At 31 December 1996 Swan Metals Limited, a company majority owned by relatives of M A Alikhani, the then Group Chief Executive, owed the Group £181,000. This amount was repaid in 1997. In accordance with a Discounting Agreement dated 16 May 1997, Swan Metals Limited acted as an agent for the Group in the recovery of a trade debtor. M A Alikhani has no beneficial interest in this company.

In the year ended 31 December 1996 the Group purchased for resale a consignment of goods at a price of £96,000. These goods were sold for £105,000 to Lastryl Enterprises Limited, a company in which a relative of M A Alikhani has an interest in. M A Alikhani has no beneficial interest in this company.

At 31 December 1997 Opticplus Enterprises Limited, a company in which a relative of M A Alikhani has an interest in, owed the Company £6,000. This amount was repaid in 1998. M A Alikhani has no beneficial interest in this company.

Mukand International Limited, which owns the other 50 per cent. shareholding in Wolff Pipelines Limited, a subsidiary of the Group, as the Group has total management control, has advanced an unsecured loan to Wolff Pipelines Limited of £75,000 at 31 December 1996; at 31 December 1997 and at 31 December 1998 which is interest free and is redeemable on 30 June 2000.

CTSC MIFK Interfin, a company in which the Group has a 40 per cent. shareholding, has paid the Group financial service fees for the year ended 31 December 1996 of £2,548,000 and 31 December 1997: £1,829,000. At 31 December 1996 CTSC MIFK Interfin owed the Group £12,128,000; 31 December 1997: £17,016,000 and 31 December 1998: £nil after making a provision of £11,976,000 in 1998 against the debt. In accordance with an Agency Agreement dated 1 February 1998, CTSC MIFK Interfin is acting as an agent for the Group in the recovery of a trade debtor.

At 31 December 1996, Middlesex OEMK plc (formerly Middlesex Balli plc) owed a shareholder's loan of £8,826,000 and current account of £653,000 to Balli Trading Limited, which held 2,450,000 ordinary shares representing 24.5 per cent. of the issued ordinary shares of US\$1 each and 50,000 or 100 per cent. of the issued "A" ordinary shares of Middlesex OEMK plc until 4 December 1997 when they were sold to Oskmet SA. The loan and current account were secured on the assets of Oskmet (UK) Limited and accrued interest at a variable rate, which for the year ended 31 December 1996 was 6.875 per cent. and for the year ended 31 December 1997 was 6.875 per cent. per annum and the loan and current account was repayable on demand. As at 31 December 1996 Middlesex OEMK plc was owed £nil and as at 31 December 1997 it was owed £510,000 by Balli Trading Limited. Balli Trading Limited has provided administrative services to the Group for which it received a dividend from Middlesex OEMK plc on its "A" ordinary shares of 10 per cent. of the profit for the year ended 31 December 1996 of £179,000 and for the period to 4 December 1997: £207,000 and has received in the year ended 31 December 1996: £74,000 and the period ended 4 December 1997: £106,000 for reimbursement of expenses incurred on behalf of the Group.

At 31 December 1996, Middlesex OEMK plc owed a shareholder's loan, being a loan note of £2,193,000; £2,273,000 at 31 December 1997 and £nil at 31 December 1998 and a current account of £19,000 at 31 December 1996; £20,000 at 31 December 1997 and £nil at 31 December 1998 to Sir David Alliance, who holds 2,450,000 ordinary shares representing 24.5 per cent. of the issued ordinary shares of US\$1 each of Middlesex OEMK plc. The loan note accrued interest of 10 per cent. per annum which amounted to £233,000 for the year ended 31 December 1996; £232,000 for the year ended 31 December 1997 and £111,000 for the year ended 31 December 1998. The shareholder's loan and interest was repaid in 1998.

At 31 December 1997, Middlesex OEMK plc was due from Oskol Electrometallurgical Kombinat ("OEMK") £8,237,000 and at 31 December 1998 – owed to OEMK: £1,155,000. OEMK has a 69 per cent. subsidiary Oskmet SA, which holds 2,450,000 ordinary shares representing 24.5 per cent. of the issued ordinary shares of US\$1 each and 50,000 or 100 per cent. of the issued "A" ordinary shares of Middlesex OEMK plc. Oskmet SA provides administrative services to the Group for which it is due to receive a dividend from Middlesex OEMK plc on its 'A' ordinary shares of 10 per cent. of the profit being £11,000 for the year ended 31 December 1997 and £55,000 for the year ended 31 December 1998. Middlesex OEMK plc's 100 per cent. subsidiary Oskmet (UK) Limited has purchased, for resale, £115,432,000 during the year ended 31 December 1997 and £62,267,000 during the year ended 31 December 1998 worth of steel products from OEMK.

At 31 December 1997, Oskmet (DRI) Limited was due from OEMK £120,000 and at 31 December 1998 – owed to OEMK: £1,238,000. Oskmet (DRI) Limited has purchased, for resale, £34,000,000 during the year ended 31 December 1997 and £23,154,000 during the year ended 31 December 1998 worth of direct reduced iron product from OEMK in the year ended 31 December 1998.

At 31 December 1997, the Company owed to OEMK £713,000 and at 31 December 1998: £488,000.

At 31 December 1996, Revenant Limited owed a shareholder's loan to Sir David Alliance ("Sir David") being a loan note of £4,251,000; 31 December 1997: £4,776,000 and 31 December 1998: £5,084,000. Sir David holds 10,000 ordinary shares representing 40 per cent. of the issued ordinary share capital of US\$1 each of Revenant Limited. The loan note accrues interest on £4,094,000 for the year ended 31 December 1996; £4,242,000 for the year ended 31 December 1997 and £4,217,000 for the year ended 31 December 1998 at 8 per cent. per annum being £178,000 for part of year ended 31 December 1996; £342,000 for the year ended 31 December 1997 and £337,000 for the year ended 31 December 1998, is unsecured and is repayable on six months written demand.

At 31 December 1996, Swan Metals (Jersey) Limited owed a shareholder's loan to Wmac Investment Corporation ("Wmac") of £667,000; 31 December 1997: £691,000 and 31 December 1998: £686,000. Wmac holds 10,000 ordinary shares representing

40 per cent. of the issued ordinary shares of US\$1 each of Swan Metal (Jersey) Limited. The loan accrued interest at 10 per cent. per annum for part of 1996: £279,000 and was interest free for the years ended 31 December 1997 and 1998, unsecured and repayable within one year. Swan Metals (Jersey) Limited paid a management fee of £11,000 to Wmac for the year ended 31 December 1996.

On 7 August 1998 the Company disposed of its 45 per cent. equity interest in Agrifarm International Limited ("Agrifarm") for a cash consideration of £17,000. In addition M A Alikhani procured the repayment to the Group by Agrifarm of £633,000 in full and final settlement of the shareholder's loan due to the Group.

The Company owned a 23.3 per cent. equity interest in Dominion Energy PLC ("Dominion") during the period 30 October 1997 to 6 October 1998 (date shareholding disposed of). During the period 30 October 1997 to 31 December 1997 the Group received £29,000 and during the period 1 January 1998 to 6 October 1998: £36,000 from Dominion for accounting and other services.

32. Events occurring after the end of the year 31 December 1998

(a) *Swan Metals (Jersey) Limited*

An agreement has been reached in principle between the Company and Wmac Investment Corporation ("Wmac") to terminate the Swan Metals (Jersey) Limited ("Swan") Shareholders' Agreement. Swan undertook the aluminium trading in Tajikistan, which ceased in 1996 and has not undertaken any new business since then. Swan is owned 60 per cent. and 40 per cent. by Middlesex and Wmac, respectively. Middlesex on behalf of Swan is to pay £193,000 cash and transfer 0.32 per cent. of the 2 per cent. equity investment it has in Lebedinsky GOK in full and final settlement of the shareholder's loan by Wmac to Swan. As part of this agreement Middlesex will acquire Wmac's 40 per cent. equity interest in Swan for £nil consideration.

(b) *Revenant Limited and Middlesex OEMK plc*

The Group's consolidated balance sheet has net current liabilities of £2.8 million, which includes a liability of US\$7.0 million (£4.2 million) being an 8 per cent. unsecured loan note due from Revenant Limited ("Revenant"), a subsidiary in which the Group has a 60 per cent. equity interest. This liability is due to the minority shareholder, Sir David Alliance ("Sir David") together with £867,000 of accrued interest and dividends. In addition, Revenant has liabilities to Group companies totalling £7.4 million, including a US\$4.0 million (£2.4 million) 8 per cent. unsecured loan note. These liabilities are not reflected on the Group's consolidated balance sheet as they eliminate on consolidation.

Neither shareholder has requested repayment of their loans or payment of their accrued interest on the loans. However, because interest payments have not been made, the shareholders' loans are in technical default, which causes them to be repayable on demand instead of on six month's notice as required by the loan agreement.

On 30 June 1999, heads of agreement were signed to effect a settlement of Sir David's loan note liability by the transfer, at cost, of a 5.2 per cent. equity interest in Oskol Electrometallurgical Kombinat ("OEMK") reducing Revenant's holding from 14.5 per cent. (carrying value – £11.8 million) to 9.3 per cent. The Group would retain an option to repurchase the shareholding at cost within three years of the transaction being approved by the Group's shareholders at an Extraordinary General Meeting ("EGM") and Sir David would have an option to sell his shareholding, at cost, to the Group at the conclusion of the three years. In addition, the transfer of the 5.2 per cent. equity interest in OEMK to Sir David will also be in settlement of the accrued but unpaid interest on his loan note and declared but unpaid dividend. Further, in consideration of the above, Sir David will transfer to the Group his 40 per cent. equity interest in Revenant.

This agreement also includes terms for the Group to acquire Sir David's 24.5 per cent. equity interest in Middlesex OEMK plc, a 51 per cent. subsidiary of Middlesex. The cash consideration for this acquisition, being the par value of the shares, is to be US\$2.45 million (£1.5 million). In addition Sir David is to be issued with warrants to subscribe for 20 million shares in the Group at 1.5 pence per share.

Final agreement and approval of these transactions will remove the uncertainty over the future of Revenant and its investment in OEMK. These transactions are subject to shareholders approval at an EGM and full details will be set out in a circular in due course.

PART 6 – INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 1999

The following is the full text of the unaudited interim results for the six months ended 30 June 1999 published on 21 October 1999 .

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MIDDLESEX HOLDINGS plc

UNAUDITED INTERIM REPORT 1999

Chief executive's review

In the first half of 1999 the Group has produced a satisfactory set of financial results with profit before taxation of £1.1 million (1998: £302,000). An increase in global steel prices has resulted in improved financial results for the six months ended 30 June 1999. Turnover increased to £63.0 million (1998: £47.1 million) and gross profit was £3.4 million compared to £3.0 million for the six months ended 30 June 1998. In accordance with the Company's practice in previous years, the Directors are not proposing the payment of an interim dividend.

Steel and DRI

Global steel trading conditions have improved and this is reflected in an increase in turnover and profit before taxation to £63.0 million (1998: £45.6 million) and £1.4 million (1998: £0.3 million) respectively.

Swan Metals (Jersey) Limited

As announced on 19 August 1999, the Group has terminated its joint venture arrangements with Leucadia National Corporation involving Swan Metals (Jersey) Limited. Middlesex has subsequently agreed to buy back the 0.32 per cent. interest in Lebedinsky GOK.

Year 2000

To ensure continuity of operations in the approaching new Millennium, the Group has reviewed all its computer and other business systems which have time sensitive programmes that may not properly reflect or recognise the Year 2000. All such systems were purchased/leased in recent years and have been confirmed as Year 2000 compliant by the suppliers of the equipment and software. Expenditure on addressing Year 2000 issues has been, and is expected to remain, immaterial. OEMK has confirmed that all its computer and other business systems have been reviewed and that they are Year 2000 compliant

Second Half

The improvement in steel trading conditions has continued into the second half and the Directors anticipate that sales from these activities will show an increase over that achieved in the period to 30 June.

As an additional source of revenue, Middlesex is expecting to commence trading hot bricketted iron produced by Lebedinsky GOK in the last quarter of the year.

Whilst the first half includes no financial services income, the contribution from financial services in the second half is anticipated to be in excess of US\$1.2 million.

In conclusion, therefore, the Directors are optimistic for the second half.

Farhad Moshiri

Chief Executive

21 October 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Six months ended 30 June 1999

		Six months ended 30.6.99 Unaudited £000	Six months ended 30.6.98 Unaudited £000	Year ended 31.12.98 Audited £000
	<i>Note</i>			
Turnover	2	63,030	47,060	111,465
Cost of sales		(59,630)	(44,065)	(104,952)
Gross profit		3,400	2,995	6,513
Administrative expenses				
– recurring		(2,086)	(2,220)	(5,024)
– exceptional	3	–	–	(14,772)
		(2,086)	(2,220)	(19,796)
Other operating income/(charges) net		–	93	102
Operating profit/(loss)		1,314	868	(13,181)
Share of associated undertakings' profits/(losses)				
– continuing operations		–	162	497
– discontinued operations		–	(335)	(278)
		–	(173)	219
Profit on sale of associated undertaking				
– profit against carrying value		–	–	1,315
– goodwill written back on disposal		–	–	(415)
		–	–	900
Profit/(loss) on ordinary activities before interest		1,314	695	(12,062)
Interest receivable and similar income		87	224	227
Amounts written off investments	4	–	–	(762)
Interest payable and similar charges		(272)	(617)	(1,453)
Profit/(loss) on ordinary activities before taxation	2	1,129	302	(14,050)
Tax (charge)/ credit on profit/(loss) on ordinary activities	5	(425)	(276)	905
Profit/(loss) on ordinary activities after taxation		704	26	(13,145)
Equity minority interests		(326)	(30)	(299)
Profit/(loss) for the financial period transferred to/(from) reserves		378	(4)	(13,444)
Basic earnings/(loss) per ordinary share	6	0.05p	(0.00)p	(1.7)p
Diluted earnings/(loss) per share	6	0.05p	(0.00)p	(1.7)p
All activities derive from continuing operations				

CONSOLIDATED BALANCE SHEET

As at 30 June 1999

	<i>Note</i>	30.6.99 Unaudited £000	30.6.98 Unaudited £000	31.12.98 Audited £000
Fixed assets				
Intangible assets		1,018	1,160	1,089
Tangible assets		131	196	152
Investments	7	16,009	14,733	16,057
Mining leases		10	1,000	10
		17,168	17,089	17,308
Current assets				
Stocks		1,603	2,381	1,828
Debtors				
– falling due within one year	8	13,063	15,690	13,240
– falling due after more than one year	8	–	13,168	–
Cash at bank and in hand		6,995	5,357	2,505
		21,661	36,596	17,573
Creditors: amounts falling due within one year	9	(23,175)	(24,735)	(20,371)
Net current (liabilities)/assets		(1,514)	11,861	(2,798)
Total assets less current liabilities		15,654	28,950	14,510
Creditors: amounts falling due after more than one year	10	(630)	(1,544)	(75)
Provision for liabilities and charges		–	(34)	–
Total net assets		15,024	27,372	14,435
Capital and reserves				
Called up share capital		2,026	2,026	2,026
Share premium account		14,288	14,288	14,288
Profit and loss account		(5,205)	7,950	(5,213)
Total equity shareholders' funds	12	11,109	24,264	11,101
Equity minority interests		3,915	3,108	3,334
		15,024	27,372	14,435

CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June 1999

		Six months ended 30.6.99	Six months ended 30.6.98	Year ended 31.12.98
	Note	Unaudited £000	Unaudited £000	Audited £000
Cash inflow from operating activities	11(a)	11,942	24,792	14,398
Dividends received from associated undertaking		–	85	73
Returns on investments and servicing of finance	11(b)	(17)	(244)	(566)
Taxation		(134)	(2,033)	(2,404)
Net cash (outflow)/inflow from capital expenditure and financial investment	11(b)	(4,597)	(6,241)	4,927
Equity dividends paid		–	(99)	(100)
Cash inflow before financing		7,194	16,260	16,328
Financing				
– Issue of ordinary share capital	11(b)	–	22	22
– Decrease in debt	11(b)	(2,469)	(13,330)	(16,764)
Net cash outflow from financing		(2,469)	(13,308)	(16,742)
Increase/(decrease) in cash	11(c)	4,725	2,952	(414)

Reconciliation of net cash flow to movement in net debt

	Note	£000
Increase in cash in the six months ended 30.6.99	11(c)	4,725
Cash outflow from decrease in debt	11(c)	2,469
Change in net debt resulting from cash flows		7,194
Translation difference		(409)
Other non-cash changes		(174)
Movement in net debt in the period		6,611
Net debt at 1.1.99		(7,526)
Net debt at 30.6.99	11(c)	(915)

Notes to the interim financial information

Six months ended 30 June 1999

1. Preparation

- (i) The Directors have always recognised that investing in and trading with the Russian Federation has a degree of political, regulatory and economic risk. The Directors pay close attention to the monitoring and management of such risks, particularly in relation to the Group's investments, in order to ensure the Group's continued ability to trade. Having considered these issues the Directors believe it appropriate to prepare the interim financial information on a going concern basis. The interim financial information does not include any adjustments that would result from the crystallisation of any such risk.
- (ii) The results of activities during the period, which are all continuing activities, relate to Middlesex Holdings plc, Cygnet Metals Limited, Portsmouth Metals Limited, Swan Metals (Jersey) Limited, Middlesex OEMK plc, Revenant Limited, Clogau (Nevada) Inc., Middlesex Corporate Finance plc, Oskmet (DRI) Limited, D.R.I.(IOM) Limited and Wolff Steel Limited. These companies were also continuing activities during the periods ended 30 June 1998 and 31 December 1998.
- (iii) The financial results of UK companies which report in foreign currencies and foreign subsidiaries are translated into sterling at the closing rate of exchange, as at 30 June 1999, for the balance sheet and at the average rate for the profit and loss account for the six months ended 30 June 1999.
- (iv) The unaudited results for the six months ended 30 June 1999 have been prepared using accounting policies which are consistent with those adopted in the audited accounts for the year ended 31 December 1998.
- (v) The Interim Report is unaudited and does not constitute statutory accounts. The results for the year ended 31 December 1998 do not comprise statutory accounts for the purpose of S240 Companies Act 1985 and have been extracted from the Group's published accounts for that year which have been filed with the Registrar of Companies and contain an unqualified Audit Report.

The Interim Report for the six months ended 30 June 1999 was approved by the Directors on 21 October 1999.

- (vi) Copies of the Interim Report will be available from the Company's Registered Office at Fifth Floor, 100 Avenue Road, London NW3 3HF.

2. Segmental analysis of results

	By destination			By geographical location		
	Six months ended 30.6.99	Six months ended 30.6.98	Year ended 31.12.98	Six months ended 30.6.99	Six months ended 30.6.98	Year ended 31.12.98
	£000	£000	£000	£000	£000	£000
(i) Turnover						
Spain	8,301	10,940	23,851	—	—	—
Philippines	6,571	1,749	2,895	—	—	—
Taiwan	5,524	10,047	16,374	—	—	—
China	5,020	—	—	—	—	—
Hong Kong	4,954	15	15	—	—	—
USA	4,659	4,638	9,609	1,555	2,067	4,106
Guatemala	2,725	791	791	—	—	—
Ecuador	2,688	—	4,943	—	—	—
Italy	2,639	831	3,890	—	—	—
Jordan	2,553	—	3,725	—	—	—
Egypt	2,207	162	1,829	—	—	—
Israel	2,094	—	—	—	—	—
Australia	2,002	847	1,750	2,002	847	1,768
Panama	1,599	1,585	2,298	—	—	—
Morocco	1,398	1,292	3,349	—	—	—
Malaysia	1,290	—	—	—	—	—
Thailand	1,246	—	1,625	—	—	—
Indonesia	1,127	3,741	6,112	—	—	—
Slovakia	832	—	—	—	—	—
Greece	773	—	—	—	—	—
India	642	437	1,947	—	—	—
Dominican Republic	503	776	1,407	—	—	—
Argentina	371	647	1,901	—	—	—
Pakistan	253	137	665	—	—	—
Kenya	235	—	—	—	—	—
Turkey	191	183	1,598	—	—	—
Costa Rica	187	364	715	—	—	—
Honduras	169	—	—	—	—	—
United Kingdom	142	520	645	59,473	44,146	105,591
Colombia	88	1,579	1,579	—	—	—
Peru	—	1,118	7,717	—	—	—
CIS	—	909	1,993	—	—	—
Poland	—	547	1,408	—	—	—
Romania	—	—	2,418	—	—	—
Finland	—	—	1,246	—	—	—
El Salvador	—	—	1,142	—	—	—
Hungary	—	—	880	—	—	—
Liechtenstein	—	563	563	—	—	—
Other	47	2,642	585	—	—	—
	63,030	47,060	111,465	63,030	47,060	111,465

(ii) *Turnover*

	By class of business		
	Six months ended 30.6.99 £000	Six months ended 30.6.98 £000	Year ended 31.12.98 £000
Metals and metal related activities	63,030	45,571	109,971
Financial services	–	1,489	1,494
	63,030	47,060	111,465

(iii) *Profit/(loss) before taxation*

	By class of business		
	Six months ended 30.6.99 £000	Six months ended 30.6.98 £000	Year ended 31.12.98 £000
Metals and metal related activities	1,390	286	1,852
Financial services	–	1,459	1,464
Agriculture – associated undertaking – discontinued 1998	–	(154)	692
Oil – associated undertaking – discontinued 1998	–	(181)	(169)
Other – recurring	37	42	66
Other – Provision for:			
Amounts due from CTSC MIFK Interfin	–	–	(11,976)
OAU Yuzhuralnickel option	–	–	(1,071)
Mining leases Nevada, USA	–	–	(990)
Customers' claims	–	–	(663)
Amounts due from two trade investments which have			
Siberian gold mining interests	–	–	(42)
Acquisition of minority shareholders in			
Siberian gold mining interests	–	–	(30)
– Amounts written off investments	–	–	(762)
Net interest payable and parent company expenses	(298)	(1,150)	(2,421)
	1,129	302	(14,050)

(iv) *Profit/(loss) before taxation*

	By geographical location		
	Six months ended 30.6.99 £000	Six months ended 30.6.98 £000	Year ended 31.12.98 £000
UK – group companies	1,447	916	(9,292)
– associated undertakings	–	(335)	(125)
USA	(34)	–	(997)
Bermuda	(17)	(3)	(3,083)
Jersey	(113)	(267)	(554)
Australia	(154)	(9)	1
	1,129	302	(14,050)

(v) *Net assets/(liabilities)*

	By class of business		
	30.6.99 £000	30.6.98 £000	31.12.98 £000
Metals and metal related activities	12,431	22,685	11,924
Financial services	2,328	2,328	2,278
Agriculture – associated undertaking – discontinued in 1998	–	(784)	–
Oil – associated undertaking – discontinued in 1998	–	2,921	–
Other	265	222	233
	15,024	27,372	14,435

(vi) *Net assets/(liabilities)*

	By geographical location		
	30.6.99 £000	30.6.98 £000	31.12.98 £000
UK	9,041	18,542	7,879
USA	4	1,035	36
Bermuda	(1)	1,015	–
Jersey	5,499	6,177	5,951
Australia	481	603	569
	15,024	27,372	14,435

3. *Administrative expenses – exceptional*

	Six months ended 30.6.99 £000	Six months ended 30.6.98 £000	Year ended 31.12.98 £000
Provision for:			
Amounts due from CTSC MIFK Interfin	–	–	11,976
OAU Yuzhuralnickel option	–	–	1,071
Mining leases in Nevada, USA	–	–	990
Customers' claims	–	–	663
Amounts due from two trade investments which have			
Siberian gold mining interests	–	–	42
Acquisition of minority shareholders in			
Siberian gold mining interests	–	–	30
	–	–	14,772

4. *Amounts written off investments*

	Six months ended 30.6.99 £000	Six months ended 30.6.98 £000	Year ended 31.12.98 £000
CTSC MIFK Interfin	–	–	274
Northern Maritime Property Investments Limited	–	–	349
Forestrealm Limited	–	–	136
MBA Energy	–	–	3
	–	–	762

5. Tax (charge)/credit on profit/(loss) on ordinary activities

The taxation charge for the six months ended 30 June 1999 has been based on the estimated effective rate for the full year of 38 per cent. (30 June 1998: 91 per cent.). For the year ended 31 December 1998 there was a taxation credit of £905,000.

The Inland Revenue has raised queries in the period regarding the historical tax affairs of the Group. The enquiries are in their early stages, and the Inland Revenue has not yet indicated whether they intend to raise further assessments. In the circumstances, no provision has been made in respect of this issue. Whilst a liability may crystallise at some time in the future, it is currently too early to predict the outcome of the enquiry.

6. Basic earnings/(loss) per ordinary share and diluted earnings/(loss) per ordinary share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) after taxation and minority interest for the period of £378,000 (1998 – first six months: (loss) £4,000; full year: (loss) £13,444,000) and the weighted average number of ordinary shares in issue during the period of 810,406,234 (1998 – first six months: 810,141,041; full year – 810,273,357).

The calculation of diluted earnings/(loss) per share is based on adjusted profit/(loss) after taxation and minority interest for the period of £378,000 (1998 – first six months (loss): £4,000; full year: (loss) £13,444,000) and the weighted weighted average number of ordinary shares in issue, dilutive share options and warrants outstanding during the period of 810,406,234 (1998 – first six months: 793,203,241; full year: 771,994,191).

7. Investments

	30.6.99 £000	30.6.98 £000	31.12.98 £000
Associates:			
Agrifarm International Limited	–	(635)	–
Afon Tinplate Company Limited	2,185	2,162	2,265
LM Holding Company Inc.	–	298	–
ISE International Furniture Limited	265	222	233
Dominion Energy PLC	–	193	–
	2,450	2,240	2,498
Trade investments:			
Oskol Electrometallurgical Kombinat	11,726	11,726	11,726
CTSC MIFK Interfin	–	274	–
Northern Maritime Property Investments Limited	–	349	–
Riceman Insurance Investments plc	4	4	4
Forestrealm Limited	–	137	–
MBA Energy	–	3	–
Lebedinsky GOK	1,829	–	1,829
	13,559	12,493	13,559
	16,009	14,733	16,057

The investment in Oskol Electrometallurgical Kombinat is owned by Revenant Limited, a 60 per cent. subsidiary of the Group.

8. Debtors

	30.6.99 £000	30.6.98 £000	31.12.98 £000
Amounts falling within one year:			
Trade debtors	6,388	4,088	12,057
Advance corporation tax	38	212	36
Corporation tax recoverable	333	37	306
Other debtors	6,304	11,353	840
Prepayments and accrued income	—	—	1
	13,063	15,690	13,240
Amounts falling due after more than one year:			
Advance corporation tax	—	200	—
Other debtors	—	12,968	—
	—	13,168	—
	13,063	28,858	13,240

Included in "Amounts falling due within one year: other debtors" at 30 June 1999 is £1,568,000 (30 June 1998: £8,746,000; 31 December 1998: £nil) due from Oskol Electrometallurgical Kombinat. Also included in "Amounts falling due after more than one year: other debtors" at 30 June 1999 is £nil (30 June 1998: £11,904,000; 31 December 1998: £nil) due from CTSC MIFK Interfin.

9. Creditors: amounts falling due within one year

	30.6.99 £000	30.6.98 £000	31.12.98 £000
Bank overdraft	1,278	1,027	1,529
Bank loans	190	5,409	2,536
Other loans	6,240	6,137	5,891
Deposited Loan Stock 2006	594	691	645
Trade creditors	8,643	8,507	2,317
Corporation tax	992	762	940
Advance corporation tax	929	1,284	964
Other tax and social security	36	34	23
Other creditors	3,805	369	4,340
Accruals and deferred income	468	515	1,186
	23,175	24,735	20,371

10. Creditors: amounts falling due after more than one year

	30.6.99 £000	30.6.98 £000	31.12.98 £000
Other loans	202	75	75
Corporation tax	428	1,469	—
	630	1,544	75

11. Notes to consolidated cash flow statement

Notes to consolidated cash flow statement

	Six months ended 30.6.99 £000	Six months ended 30.6.98 £000	Year ended 31.12.98 £000		
(a) Reconciliation of operating profit/(loss) to net cash inflow from operating activities					
Operating profit/(loss)	1,314	868	(13,181)		
Depreciation charges	100	106	212		
Decrease/(increase) in stocks	225	(164)	389		
Decrease in debtors	1,774	19,061	25,826		
Increase in creditors	7,855	5,199	434		
Loss on disposal of tangible fixed assets	—	7	—		
Provision against mining leases	—	—	990		
Currency translation differences on foreign currency assets and liabilities	674	(285)	(272)		
Cash inflow from operating activities	11,942	24,792	14,398		
	Six months ended 30.6.99 £000	Six months ended 30.6.98 £000	Year ended 31.12.98 £000		
(b) Analysis of cash flows from headings netted in the cash flow statement					
Returns on investments and servicing of finance					
Interest received	87	224	227		
Interest paid	(98)	(468)	(793)		
Dividends paid to minority shareholders in subsidiary undertakings	(6)	—	—		
Net cash outflow for returns on investments and servicing of finance	(17)	(244)	(566)		
Net cash (outflow)/inflow from capital expenditure and financial investment					
Purchase of tangible fixed assets	—	—	(21)		
Sale of tangible fixed assets	—	—	18		
Purchase of trade investment	—	(5,466)	(7,111)		
Loans recovered from associated undertakings	48	295	1,153		
Sale of associated undertakings	—	—	239		
Loan (advanced to)/recovered from Oskol Electrometallurgical Kombinat	(4,645)	(1,070)	10,649		
Net cash (outflow)/inflow from capital expenditure and financial investment	(4,597)	(6,241)	4,927		
Financing					
Issue of ordinary shares	—	22	22		
Decrease in debt due within one year	(2,596)	(13,330)	(16,764)		
Increase in debt due after one year	127	—	—		
	(2,469)	(13,330)	(16,764)		
Net cash outflow from financing	(2,469)	(13,308)	(16,742)		
(c) Analysis of net debt					
	At 1.1.99 £000	Cash flow £000	Other non-cash changes £000	Exchange movements £000	At 30.6.99 £000
Cash at bank and in hand	2,505	4,473	—	17	6,995
Bank overdrafts	(1,529)	252	—	(1)	(1,278)
	976	4,725	—	16	5,717
Debt due after one year	(75)	(127)	—	—	(202)
Debt due within one year	(8,427)	2,596	(174)	(425)	(6,430)
	(7,526)	7,194	(174)	(409)	(915)

The other non-cash changes relates to interest accruing on debt due within one year which has not been paid in cash.

12. Reconciliation of movement in shareholders' funds

	Six months ended 30.6.99 £000	Six months ended 30.6.98 £000	Year ended 31.12.98 £000
Profit/(loss) for the financial period/year	378	(4)	(13,444)
Unrealised exchange loss arising from translation of interests expressed in foreign currency	(370)	(64)	(202)
Goodwill arising on acquisition of interest in associated undertaking which has subsequently been sold	—	—	415
Issue of ordinary share capital	—	22	22
Net addition to/(reduction in) shareholders' funds	8	(46)	(13,209)
Opening shareholders' funds	11,101	24,310	24,310
Closing shareholders' funds	11,109	24,264	11,101

13. Minority interests

(a) *Swan Metals (Jersey) Limited*

On 19 August 1999 an agreement was signed by Middlesex and Wmac Investment Corporation ("Wmac") to terminate the Swan Metals (Jersey) Limited ("Swan") Shareholders' Agreement. Swan undertook the aluminium trading in Tadjikistan, which ceased in 1996 and has not undertaken any new business since then. Swan was owned 60 per cent. and 40 per cent. by Middlesex and Wmac, respectively. Middlesex on behalf of Swan is to pay US\$320,000 cash and transfer 0.32 per cent. out of the 2 per cent. equity investment it has in Lebedinsky GOK in full and final settlement of the loan by Wmac to Swan. As part of the agreement Middlesex acquires Wmac's 40 per cent. equity interest in Swan for £nil consideration.

(b) *Revenant Limited and Middlesex OEMK plc*

As at 30 June 1999 the Group's consolidated balance sheet has net current liabilities of £1.9 million, which includes a liability of US\$7.0 million (£4.4 million) being an 8 per cent. unsecured loan note due from Revenant Limited ("Revenant"), a subsidiary in which the Group has a 60 per cent. equity interest. This liability is due to the minority shareholder, Sir David Alliance ("Sir David") together with £1,089,000 of accrued interest and dividends. In addition, Revenant has liabilities to Group companies totalling £7.9 million, including a US\$4.0 million (£2.5 million) 8 per cent. unsecured loan note. These liabilities are not reflected on the Group's consolidated balance sheet as they eliminate on consolidation.

Neither shareholder has requested repayment of their loans or payment of their accrued interest on the loans. However, because interest payments have not been made, the shareholders' loans are in technical default, which causes them to be repayable on demand instead of on six months notice as required by the loan agreement.

On 21 October 1999 a deed of settlement was entered into to effect a settlement of Sir David's loan note liability by the transfer, at cost, of a 5.2 per cent. equity interest in Oskol Electrometallurgical Kombinat ("OEMK") reducing Revenant's holding from 14.5 per cent. (carrying value – £11.8 million) to 9.3 per cent. The deed of settlement implements heads of agreement dated 30 June 1999. The Group would retain an option to repurchase the shareholding within three years of the transaction being approved by the Group's shareholders at an Extraordinary General Meeting ("EGM") and Sir David would have an option to sell his shareholding to the Group at the conclusion of the three years. The exercise of these options would require Middlesex to pay to Sir David 50 per cent. of the excess of the share price over US\$31.50 per share to a maximum share price of US\$118.50 per share. The accrued but unpaid interest on his loan note and declared but unpaid dividend would be waived by Sir David. Further, Sir David would transfer to the Group his 40 per cent. equity interest in Revenant for a nominal consideration of US\$1.

This agreement also includes terms for the Group to acquire Sir David's 24.5 per cent. equity interest in Middlesex OEMK plc, a 51 per cent. subsidiary of Middlesex. The cash consideration for this acquisition, being the par value of the shares, is to be US\$2.45 million (£1.5 million). In addition, Sir David is to be issued with warrants to subscribe for 20 million shares in the Group at 1.5 pence per share.

Final agreement and approval of these transactions will remove the uncertainty over the future of Revenant and its investment in OEMK. These transactions are subject to shareholders' approval at an EGM and full details are set out in the circular dated 21 October 1999 which also contains the unaudited interim financial information for the six months ended 30 June 1999.

Independent review report to Middlesex Holdings plc

We have been instructed by the Company to review the financial information set out on pages 64 to 74 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Listing Rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

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

Uncertainties

In forming our opinion we have considered the adequacy of the disclosures made in note 1(i) and note 13(b) to the interim financial information dealing respectively with the uncertainties concerning the Group's significant investments in the Russian Federation and a proposed transaction requiring the Company's Shareholders' approval. We consider that these matters should be drawn to your attention but our report is not qualified in these respects.

Opinion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented in the six months ended 30 June 1999.

Deloitte & Touche

Chartered Accountants

Hill House
1 Little New Street
London EC4A 3TR

21 October 1999"

PART 7 – ADDITIONAL INFORMATION

1. Middlesex and its activities

The Company was incorporated and registered in England and Wales with No. 1816510 as Clogau Gold Mines plc on 15 May 1984 under the Companies Acts 1948 to 1981 as a public limited Company. Its name was changed to Middlesex Holdings plc on 14 January 1994 and it operates now under the Companies Act 1985 (as amended).

The Company is the holding company of the Group, whose principal activities include investment in OEMK and trading of its steel products and direct reduced iron ore produced by OEMK, an investment in Lebedinsky, tinplate, stainless steel and electrical steel trading, investment in tinplate service centres and provision of financial services to the Company's Russian partners.

Due to the turbulent state of the Russian economy during 1998 a provision of £13.9 million was made against the carrying values of a number of the Group's assets located in Russia. As a result of the decrease in the international gold price during 1997 and 1998 provisions of £1.7 million, in aggregate, were made against the carrying value of the Group's gold mining leases located in Nevada, USA.

As highlighted in Part 4 of this document, the Group's business and profitability is dependent upon:

- (i) a distribution agreement dated 20 August 1996 entered into between OEMK and D.R.I (IOM) Limited, a wholly owned subsidiary of the Group, whereby OEMK appointed D.R.I (IOM) Limited as its distributor for ten years of DRI worldwide, except for the Commonwealth of Independent States.
- (ii) The New OEMK/Middlesex Agreement dated 28 May 1998 as amended by two addenda dated 10 June 1998 and 28 June 1998 as described more fully in paragraph 13(a)(v) of Part 7.

These agreements account for all of the steel and DRI trading activities of the Group (with the exception of the activities of Wolff Steel Limited).

The head office of the Company and registered office of each of the UK subsidiaries is at Fifth Floor, 100 Avenue Road, London NW3 3HF, with the exception of Wolff Inova Limited whose registered office is Crofty Industrial Estate, Crofty, Swansea SA4 3RS.

The registered office of Portsmouth Metals Limited is Bermuda Commercial Bank Building, 44 Church Street, Hamilton HM2, Bermuda.

The registered office of both Revenant Limited and Swan Metals (Jersey) Limited is 6 Commercial Street, St. Helier, Jersey, Channel Islands JE4 8UZ.

The registered office of Clogau (Nevada) Inc. is 127 Cheney Street, Reno, Nevada 89501, USA.

The registered office of D.R.I. (IOM) Limited is Capo House, 31/37 North Quay, Douglas, Isle of Man IM1 4LB.

The registered office of both Wolff Australia Pty Limited and Amari Wolff Steel Pty Limited is Ground Floor, 437 St. Kilda Road, Melbourne, Victoria 3004, Australia.

The registered office of Middlesex (U.S.A.)_Inc. is 60 East 42nd Street, New York, New York 10165, USA.

The registered office of both Agrifarm International Limited and Dominion Energy PLC is 77 South Audley Street, London W1Y 5TA.

The registered office of Afon Tinplate Company Limited is Afon Works, Velindre, Swansea, West Glamorgan SA5 7LN.

The registered office of L M Holdings Company Inc. is 7000 Adams Street, Willowbrook, Illinois 60521, USA.

The registered office of ISE Furniture Limited is Kenfig Industrial Estate, Margan, Port Talbot, West Glamorgan SA13 2PG.

The registered office of Acier Wolff Canada Inc. is Suite 225, 5180 Chemin Queen Mary, Montreal, Quebec H3W 3E7, Canada.

The registered office of both Forestream Limited and Northern Property Investments Limited is Fifth Floor, 100 Avenue Road, London NW3 3HF.

The registered office of both CTSC MIFK Interfin and MBA Energy is Bul. 1 h. 26, Butirskiy Val, Moscow 103005, Russia.

The registered office of Riceman Insurance Investments plc is 43 Queen Anne Street, London W1M 9FA.

The registered office of OEMK is ZUK-2, Stary Oskol – 15, Belgorod region 309530, Russia

The registered office of Lebedinsky is Gubkin – 11, Belgorod region 309510, Russia.

The Group's principal establishment is Fifth Floor, 100 Avenue Road, London NW3 3HF; Size: 4,720 square feet, Tenure: 15 years from 23 December 1994 with a 5 year break clause in favour of Middlesex. No freehold or leasehold, other interest in land or buildings from which relevant Group business is operated, is owned by the Group.

Save as disclosed above, the name, activity and proportion of capital held in each of the Company's subsidiaries is set out in note 13 of Part 5 of this document.

2. Directors of Middlesex

The names of the directors of Middlesex are as follows:

The Right Honourable The Lord Owen

of the City of Plymouth, CH

Ardavan Farhad Moshiri, FCCA

Ian Falconer, CA (SA)

Alexei Alexseevich Ugarov

James Glyn West, FCA

John Philip Anthony Wolff

Ian Peter Spratling, OBE

Executive Chairman

Chief Executive

Finance Director

Executive Director

Non-Executive Director

Non-Executive Director

Non-Executive Director

The business address of the directors and the registered office of Middlesex is Fifth Floor, 100 Avenue Road, London NW3 3HF.

3. Directors' Management Expertise and Experience

Executive Chairman

Lord Owen, aged 61, a former Foreign Secretary, was appointed Executive Chairman of Middlesex in October 1995. He is also a Non-Executive Director of Coats Viyella plc and Abbott Laboratories Inc.

Chief Executive

Farhad Moshiri, aged 44, was born in Iran and is now a naturalised British subject. He is a qualified accountant, who was formerly with Deloitte & Touche, Chartered Accountants. He joined Middlesex in 1993 as Group Financial Controller, a position he held until he was appointed Managing Director in May 1996. In June 1998 he was appointed Chief Executive.

Finance Director

Ian Falconer, aged 42, was formerly with Deloitte & Touche, Chartered Accountants. He qualified as a Chartered Accountant in South Africa in 1986, and joined Middlesex in 1996, where he was appointed Finance Director in June 1997.

Executive Director

Alexei Ugarov, aged 69, is a Russian national, and graduated at the Moscow Institute of Steel and Alloys. He has held a number of senior positions in the Russian steel industry, and was appointed General Director of OEMK in 1991. He is also a member of the supervisory board of directors of Lebedinsky.

Non-Executive Director

James West, FCA, the senior independent Non-Executive Director, aged 52, was formerly a managing director of Lazard Brothers & Co Ltd and prior to that was managing director of Globe Investment Trust plc. He is currently non-executive chairman or director of a number of public and private companies.

Non-Executive Director

John Wolff, an independent Non-Executive Director, is aged 59 and has over 35 years experience of brokerage on the London Metal Exchange, physical trading in non-ferrous metals and steel, financing, foreign exchange and bullion. He was for many years a director of Rudolf Wolff & Co Ltd and is a former chairman of the London Metal Exchange.

Non-Executive Director

Ian Spratling, OBE, a Non-Executive Director is aged 65, and was formerly chief executive of Wolff Steel Limited. He is chairman of Afon Tinplate Company Limited, chairman of the Swansea Bay Partnership and a board member of the West Wales Training and Enterprise Council and the Llanelli/Dinefwr NHS Trust. He is a past chairman of the Confederation of British Industry in Wales.

4. Current and past directorships

The directors currently hold the following directorships and have held the following directorships within the past five years prior to the publication of this document and are or were partners in the following firms within the five years prior to the publication of this document.

Lord Owen

Current directorships and partnerships

Abbott Laboratories Inc.
Coats Viyella plc
Deborah Owen Limited
New Crane Publications Limited
NEU Limited.

Former directorships and partnerships

None

Ardavan Farhad Moshiri

Current directorships and partnerships

OEMK
Lebedinsky
Riceman Insurance Investments plc
Northern Maritime Property Investments Limited
Forestream Limited
56 Randolph Avenue Limited
Riceman Russia Fund Limited

Former directorships and partnerships

Swan Corporate Services Limited
Airbray Management Limited
Harrison Reeds Limited

Ian Falconer

Current directorships and partnerships

Inspired Properties Limited

Former directorships and partnerships

The Carnarvon Mining Company Limited
Clogau Gold Mines Ltd
Dominion Energy PLC

Alexei Ugarov

Current directorships and partnerships

Lebedinsky
OEMK
Oskmet

Former directorships and partnerships

None

James West

Current directorships and partnerships

Candover Investments plc
Associated British Foods Pension Trustee Limited
Aberdeen New Dawn Investment Trust plc
Aberdeen Convertible Income Trust plc
Gartmore Fledgling Index Trust plc
LEPCO plc
British Assets Trust plc
Principal Healthcare Finance Limited
Latchly Management Limited
Jimmy West Associates Limited
Bensons Crisps Plc
3i UK Select Trust Limited
Catalyst Fund Management & Research Ltd
European Financial Services Venture Fund (General Partner) Limited
Intrinsic Value PLC

Former directorships and partnerships

First Equity Holdings Limited
Lazard Select Investment Trust Limited
Friends Provident Venture Capital Trust Limited

John Wolff

Current directorships and partnerships

John Wolff International Limited
Everest Trading & Investment Limited

Former directorships and partnerships

Rudolf Wolff & Co Ltd
Metallgesellschaft Limited

Ian Peter Spratling

Afon Tinplate Company Limited
ISE International Furniture Limited
The West Walks Training & Enterprise Council Limited
Venture Fund (General Partner Wales) Limited
West Glamorgan Careers & Education Business Company Limited
Hendy Consultancy Limited

Former directorships and partnerships

None

No Director:

- (i) has any unspent convictions;
- (ii) has become bankrupt or entered into any voluntary arrangement;
- (iii) has been a director of any company or a partner of any firm which, at that time or within 12 months after his ceasing to be a director or a partner (as the case may be), had a receiver appointed or went into compulsory liquidation, or creditors voluntary liquidation or went into administration, or entered into company or partnership voluntary arrangements or made any composition or arrangement with its creditors;
- (iv) has had any public criticism against him by any statutory or regulatory authority (including recognised professional bodies) or has been disqualified by a court from acting as a director or acting in the management or conduct of the affairs of any company.

5. Share Capital

- (a) On incorporation, the authorised share capital of the Company was £1,500,000 divided into 1,500,000 Ordinary Shares of £1 each.

- (b) The authorised and issued and fully paid Ordinary Share capital of the Company at the date of this document and as it will be following the Rights Issue (assuming Qualifying Shareholders take up all of their entitlements under the Rights Issue and the exercise of the Warrants) are as follows:

	Before Proposals		After Proposals	
	£	Number	£	Number
Authorised	£2,800,000.00	1,120,000,000	£3,750,000.00	1,500,000,000
Issued	£2,026,015.59	810,406,234	£2,801,354.12	1,120,541,646

- (c) The following changes to the share capital of the Company have taken place in the three years preceding the date of this document:
- On 5 August 1996, 35,600,000 Ordinary Shares were allotted to investors by means of a placing at 6.075p per share for a consideration of £2,162,700. The shares were allotted for cash, the proceeds being used for working capital purposes.
 - On 20 August 1996, 20,000,000 Ordinary Shares were allotted at a price of 7p per share in connection with the acquisition of D.R.I. (IOM) Limited.
 - On 25 September 1996, 8,000,000 Ordinary Shares were allotted for a consideration of £80,000 on the exercise of options granted under the Executive Share Option Scheme.
 - On 25 October 1996, 24,516,129 Ordinary Shares were allotted as 50 per cent. of the consideration for the acquisition of Wolff Steel Limited.
 - On 5 December 1996, 29,379,688 Ordinary Shares were allotted at a price of 7p per share in connection with the exercise of the warrant by Wmac Investment Corporation.
 - On 3 November 1997, 500,000 Ordinary Shares were allotted for a consideration of £21,500 on the exercise of options granted under the Executive Share Option Scheme.
 - On 10 November 1997, 10,000,000 Ordinary Shares were allotted for a consideration of £100,000 on the exercise of options granted under the Executive Share Option Scheme.
 - On 7 April 1998, 500,000 Ordinary Shares were allotted for a consideration of £21,500 on the exercise of options granted under the Executive Share Option Scheme.
- (d) At the date of this document, the Directors have a general and unconditional authority for the purposes of section 80 of the Companies Act, by virtue of an ordinary resolution passed on 31 August 1999 to exercise all powers of the Company to allot relevant securities (as defined in section 80 of the Companies Act) up to an aggregate nominal amount of £675,338.52. This authority will expire at the next Annual General Meeting unless replaced at the Extraordinary General Meeting.
- (e) At the date of this document, the Directors by virtue of a resolution of the Company passed on 31 August 1999 have authority pursuant to section 95 of the Act to allot Ordinary Shares other than *pro rata* to existing holdings of Ordinary Shares, as if section 89(1) of the Act did not apply to such allotment. This authority is limited to the allotment of 40,000,000 Ordinary Shares, being 4.94 per cent. of the issued ordinary share capital at the date of the passing of the resolution and shall expire on the date of the next Annual General Meeting unless replaced at the Extraordinary General Meeting.
- (f) At the Extraordinary General Meeting of the Company convened for 16 November 1999 it is proposed that Shareholders approve, *inter alia*:
- the subscription by Oskmet for up to 67,533,853 Subscription Shares on the terms and conditions set out in the Subscription Agreement entered into between the Company and Oskmet and to authorise the Directors to execute and complete the subscription in accordance with the terms thereof;
 - the subscription by LebGOK for up to 67,533,853 Subscription Shares on the terms and conditions set out in the Subscription Agreement entered into between the Company and LebGOK and to authorise the Directors to execute and complete the subscription in accordance with the terms thereof;
 - the increase of the authorised share capital of the Company to allow for the Rights Issue, Subscription and the issue of Warrants from £2,800,000 to £3,750,000 by the creation of 380,000,000 additional Ordinary Shares (representing an increase of 33.9 per cent. in the authorised share capital of the Company);

- the authorisation of the Directors pursuant to section 80 of the Act to allot relevant securities (as defined in section 80 of the Act) to the Qualifying Shareholders who take up their rights in the Rights Issue, and to LebGOK and Oskmet and otherwise up to an aggregate nominal amount of £1,723,984.41; and
- authorise the Directors pursuant to section 95 of the Act to allot equity securities for cash for the purposes, *inter alia*, of the Rights Issue, the Subscription, the issue of the Warrants and otherwise up to an aggregate amount of £135,000. The amount disappplied other than in respect of the Subscription and the Warrants represents approximately 5 per cent. of the enlarged issued ordinary share capital representing 54,000,000 additional Ordinary Shares.

If passed, these Resolutions will replace the existing powers and authorities granted to the Directors at the last Annual General Meeting of the Company held on 31 August 1999.

- (g) Following the Rights Issue and Subscription and the passing of the resolutions at the Extraordinary General Meeting (after excluding Ordinary Shares reserved for allotment upon the exercise of options under the Share Option Schemes) up to 337,683,354 Ordinary Shares will remain authorised but unissued (representing approximately 29 per cent. of the enlarged issued share capital following implementation of the Proposals), of which the Directors will have authority to allot 54,000,000 Ordinary Shares representing approximately 5 per cent. of the enlarged issued ordinary share capital of the Company for cash other than *pro rata* to existing shareholders. The Directors have no present intention of issuing any of such authorised but unissued share capital other than upon the exercise of options or Warrants under the Share Option Schemes and the Warrant Instrument respectively.
- (h) The New Ordinary Shares will, when issued, rank *pari passu* in all respects with the Ordinary Shares and will be issued at a price of 0.75p per Ordinary Shares (representing a premium of 0.25p per Ordinary Share).
- (i) The Ordinary Shares and the New Ordinary Shares will be in registered form and are capable of being held in uncertificated form. Certificates will, however, be issued in respect of the New Ordinary Shares.

6. Directors' and other interests

As at 20 October 1999 (the latest practicable date prior to the publication of this document), the interests of each of the Directors (all of Fifth Floor, 100 Avenue Road, London NW3 3HF) and of their families (all of which are beneficial unless otherwise stated) and persons connected with them, and the existence of which is known or could with reasonable diligence be ascertained by the Directors, within the meaning of section 346 of the Act, in the issued share capital of the Company which have been and are expected immediately after completion of the Proposals to be notified under section 324 or 328 of the Act or are required to be entered in the registers of directors' interests maintained pursuant to section 325 of the Act were and are expected to be as follows:

Name	Before the Proposals		Following the Proposals	
	Number of Ordinary Shares	Percentage of issued Ordinary Shares	Number of Ordinary Shares	Percentage of issued Ordinary Shares
Lord Owen	6,500,000	0.8	7,583,333	0.8
A F Moshiri – Note 1	17,005,874	2.1	19,840,186	2.1
I Falconer	100,000	0.0	116,667	0.0
A A Ugarov – Note 2	40,000,000	4.9	40,000,000	4.2
J G West	1,000,000	0.1	1,000,000	0.1
J P A Wolff	2,281,988	0.3	2,281,988	0.2
I P Spratling	8,516,129	1.1	8,516,129	0.9

The percentage shareholdings (held following the Proposals) have been calculated on the assumption that the Executive Directors (other than A A Ugarov) only take up their rights, that no other Shareholders (other than Sir David Alliance) take up their rights, and that Oskmet and LebGOK are each allotted 67,533,853 New Ordinary Shares under the terms of the Subscription Agreements.

Notes

- (1) 16,000,000 of the shares disclosed under A F Moshiri are held beneficially by Bankhill Trustees Limited as trustees of the Caspian Settlement, a trust for the benefit of A F Moshiri's children.
- (2) The 40,000,000 shares disclosed under A A Ugarov are held beneficially by Bankhill Trustees Limited as trustees of the Whitland Employee Trust, a discretionary trust for the benefit of A A Ugarov and other Russian based individuals none of whom is employed by or otherwise connected to the Company.

As at 20 October 1999 (the latest practicable date prior to the date of publication of this document) options over Ordinary Shares granted by the Company to the Directors were as follows:

Name	Number of options	Exercise price	Date of grant	Final date for exercise	Consideration price for grant £
Lord Owen	4,000,000	8.1p	25.10.95	24.10.99	1
A F Moshiri	10,000,000	9.0p	13.11.96	12.11.06	1
I Falconer	1,000,000	9.0p	13.11.96	12.11.06	1
I Falconer	2,800,000	3.5p	15.07.98	14.07.08	1

Under the rules of the expired Share Incentive Scheme, the options over 4,000,000 Ordinary Shares granted to Lord Owen may be exercised at any time between 25 October 1997 and 24 October 1999. Under the rules of the new Executive Share Option Scheme, options over 10,000,000 and 1,000,000 Ordinary Shares granted to A F Moshiri and I Falconer, respectively, may be exercised at any time between 13 November 1999 and 12 November 2006. The options over 2,800,000 Ordinary Shares granted to I Falconer may be exercised at any time between 15 July 2001 and 14 July 2008.

After taking account of options which have lapsed, the following options to subscribe for Ordinary Shares were outstanding under the Executive Share Option Scheme to 11 employees at 20 October 1999.

Number of options	Exercise price	First date of exercise	Final date for exercise	Consideration price for grant £
1,050,000	5.25p	11.12.00	10.12.07	1
22,175,000	3.5p	15.07.01	14.07.08	1
750,000	4.25p	05.08.01	04.08.08	1

Save as disclosed in this paragraph, none of the Directors or their families and no person connected with them for the purposes of section 346 of the Act has any interest, beneficial or non-beneficial in the share capital of the Company or any of its subsidiaries.

As at 20 October 1999 (the latest practicable date prior to the date of publication of this document) the Company had been notified of pursuant to Part 6 of the Act, or was otherwise aware of, the following interests in 3 per cent. or more of the issued share capital of the Company.

	Before the Proposals			Following the Proposals	
	Number of Ordinary Shares	Percentage of Ordinary Shares	Rights Issue Shares/ Subscription Shares	Number of Ordinary Shares	Percentage of Ordinary Shares
NY Nominees Limited –					
Note 1	80,311,000	9.9	–	80,311,000	8.4
Joint Stock Imperial Bank –					
Note 2	78,200,000	9.6	–	78,200,000	8.2
LebGOK	–	–	67,533,853	67,533,853	7.1
Oskmet	–	–	67,533,853	67,533,853	7.1
Leucadia	29,379,688	3.6	–	29,379,688	3.1
Sir David Alliance	25,900,000	3.2	4,316,667	30,216,667	3.2

The percentage shareholdings (held following the proposals) have been calculated on the assumption that the Executive Directors (other than A A Ugarov) take up their rights, that no other shareholders other than Sir David Alliance take up their rights, and that LebGOK and Oskmet are each allotted 67,533,853 New Ordinary Shares under the terms of the Subscription Agreements.

Note:

- (1) The holding of NY Nominees Limited includes 40,000,000 Ordinary Shares held beneficially by Bankhill Trustees Limited as trustees of the Whitland Employee Trust and 16,000,000 Ordinary Shares held beneficially by Bankhill Trustees Limited as trustees of the Caspian Settlement, further details of which are set out earlier in this paragraph.
- (2) The holding of the Joint Stock Imperial Bank (in receivership) set out above is subject to a stop order filed at the petition of Narodny Bank (acting on behalf of the creditors of the Joint Stock Imperial Bank) which is currently contesting ownership of these shares with OEMK. OEMK claims that the Joint Stock Imperial Bank had been holding these shares on trust on their behalf.

Save as set out in this paragraph 6, the Directors are not aware of any other person who, directly or indirectly,

is, or will be immediately following completion of the Proposals interested in 3 per cent. or more of the Company's issued share capital.

Save as disclosed in paragraph 31 of Part 5 of this document, no Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company and which was effected by the Company during the current or immediately preceding financial year or was effected during an earlier financial year and which remains outstanding or unperformed.

There are no outstanding loans or guarantees, which have been granted or provided to or for the benefit of any Director by the Company or any of its subsidiaries.

The Directors are not aware of any person who, directly or indirectly, jointly or severally, exercised or could exercise control over the Company.

7. Directors' service contracts and emoluments

The aggregate emoluments of the Directors of the Company, including all benefits, in the year ended 31 December 1998 amounted to £507,000.

The aggregate emoluments of the Directors, including all benefits, payable under the arrangements in force at the date of this document for the year ended 31 December 1999 are estimated to be £370,000. The total emoluments receivable by the Directors will not be varied as a result of the Proposals. There is no arrangement under which a Director has agreed to waive future emoluments nor were there any waivers of Directors' emoluments during the year ended 31 December 1998.

On 22 May 1996, Lord Owen entered into a service contract with the Company. The agreement states that his appointment was effective from 24 October 1995, and is terminable, *inter alia*, by either party giving twelve months notice. His current remuneration is £60,000 per annum, such remuneration is reviewed annually on 1 July. He is also eligible to receive a pension contribution equal to 35 per cent. of his salary and private medical insurance for himself.

On 12 May 1998, A F Moshiri entered into a service agreement with the Company. The agreement states that his appointment was effective from 31 May 1996 and is terminable by either party giving twelve months notice. His current remuneration is £150,000 per annum, reviewed annually on 1 July. He is also eligible to receive a pension contribution equal to 15 per cent. of his salary, a car allowance and private medical insurance for himself.

On 12 May 1998, I Falconer entered into a service agreement with the Company. The agreement states that his appointment was effective from 26 June 1997 and is terminable by either party giving twelve months notice. His current remuneration is £75,000 per annum, reviewed annually on 1 July. He is also eligible to receive a pension contribution equal to 15 per of this salary, a discretionary bonus, a car allowance and private medical insurance for himself.

Save as disclosed in this paragraph, there are no service agreements, existing or proposed, between the Directors and the Company or any of its subsidiaries.

Copies of service contracts will be available for inspection at the address specified in paragraph 17 of Part 7 of this document.

8. Historical market quotations of Ordinary Shares

The table below lists the middle market quotations for Ordinary Shares for the first dealing day in each of the six months before the date of this document as derived from the London Stock Exchange Daily Official List and the middle market closing quotations for an Ordinary Share on 20 October 1999, the day prior to the announcement of the Rights Issue.

Date	Market value (p)
20 October 1999	1.71
1 September	2.425
2 August	1.75
1 July	1.25
1 June	1.45
4 May	1.45
1 April	0.75

9. Memorandum and Articles of Association

The Memorandum of Association of the Company provides that the Company's principal object, as set out fully in clause 4A, is to act as the holding and co-ordinating company of the group of companies of which the Company is for the time being the holding company. The principal activities of the Group are the trading of metals and the provision of financial services.

The objects of the Company are set out in full in the Memorandum of Association which is available for inspection as provided in paragraph 17 below.

The Articles of Association of the Company (the "Articles") contain provisions to the following effect:

(i) Share capital

All the issued ordinary shares of 0.25p each in the capital of the Company are in registered form. The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount than its existing shares, subject to the provisions of the Act sub-divide all its shares (or any of them) into shares of smaller amount than is fixed by the Memorandum of Association, determine that, as between the shares resulting from such a sub-division, any of them may have any preference or advantage as compared with others and cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person to diminish the amount of its share capital by the amount of the shares so cancelled.

Subject to the provisions of the Act, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.

Where members become entitled to fractions of a share the Directors may deal with such fractions as they see fit.

Subject to the provisions of the Act and in particular to those conferring rights of pre-emption and without prejudice to any special rights or privileges attached to any shares for the time being in issue, any share may be issued with or have attached thereto such preferred, deferred or other special rights or privileges or restrictions as the Company may from time to time by ordinary resolution determine or, if there has not been any such determination or so far as the same shall not make specific provision, as the Directors may determine.

Subject to the provisions of the Act and to any special rights conferred on the holders of any shares or any class of shares, any shares may with the sanction of a special resolution be issued on the terms that they are redeemed or are to be liable to be redeemed at the option of the Company or the holder.

(ii) Votes of members

- (a) Subject to any rights or restrictions attached to any share, on a show of hands every member who (being an individual) is present or (being a corporation) is present by a duly authorised representative or proxy who is not himself a member shall have one vote and on a poll every member shall have one vote for every share of which he is a holder, but a member cannot vote in respect of any share held by him unless all amounts presently payable by him in respect of that share have been paid.
- (b) In the case of joint holders the vote of the senior (seniority being determined in accordance with the order in which the names of the holders stand in the register of members) who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders.

(iii) Dividends and other distributions

- (a) Subject to the provisions of the Act, the Company may by ordinary resolution declare dividends to be paid to members according to their respective rights and interests in the profits of the Company available for distribution, but no larger dividend shall be paid than is recommended by the Directors. The Directors may from time to time declare and pay an interim dividend to shareholders of such amounts and on such dates and in respect of such periods as appear justified by the profits of the Company available for distribution.
- (b) All dividends shall be apportioned and paid *pro rata* according to the amounts for the time being paid up on the shares (other than amounts paid in advance of calls) during any part or parts of the period in respect of which the dividend is paid. The Directors may deduct from any dividend payable to any member all sums of money owed by that member to the Company on account of calls or otherwise in relation to shares in the Company.

- (c) The Directors may, with the sanction of an ordinary resolution of the Company, offer holders of Ordinary Shares in the capital of the Company the right to elect to receive in respect of all or part of their holdings of Ordinary Shares additional Ordinary Shares in the Company credited as fully paid instead of cash by way of dividend upon such terms and conditions and in such manner as may be specified in such ordinary resolution.

Following such an election the relevant dividend (or such part of the dividend in respect of which a right of election has been offered) shall not be payable on the Ordinary Shares pursuant to the election made but, in lieu thereof, the Directors shall capitalise out of any undistributed profits of the Company or out of any sum standing to the credit of the Company's share premium account or capital reserves (including any capital redemption reserve), as the Directors may determine, a sum equal to the aggregate nominal value of the number of additional Ordinary Shares required to be allotted to the holders of Ordinary Shares who have made such election and the Directors shall apply such sum in paying up in full such number of additional Ordinary Shares which shall be allotted and distributed as required.

The additional new Ordinary Shares so allotted shall rank *pari passu* with the fully paid Ordinary Shares of the Company then in issue save that they shall not be entitled to participate in the dividend in relation to which the relevant election was made.

- (d) On a winding up of the Company shareholders shall be entitled to participate in any surplus assets in proportion to their shareholdings.
- (e) No dividend or other monies payable in respect of shares in the capital of the Company shall bear interest against the Company.
- (f) No dividend shall exceed the amount recommended by the Directors.

(iv) Transfer of shares

- (a) All transfers of shares may be effected by an instrument of transfer in writing in the usual common form or in any other form approved by the Directors, and need not be under seal.
- (b) An instrument of transfer must be signed by, or on behalf of, the transferor and, in the case of a partly paid share, the transferee. The transferor shall remain the holder of the share until the name of the transferee is entered on the Register of Members of the Company in respect thereof.
- (c) The Directors may, in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of shares, provided they are not fully paid shares, to someone of whom they do not approve or of a share on which the Company has a lien provided that such refusal does not prevent dealings in the shares from taking place on an open and proper basis. The Directors may also decline to recognise any instrument of transfer, unless it is:
 - (A) duly stamped, deposited at the Company's registered office, or such other place as the Directors may appoint, and accompanied by the certificate for the shares to which it relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
 - (B) in respect of only one class of share; and
 - (C) in the case of a share not being a fully paid share in favour of not more than four transferees.
- (d) The transferor is deemed to remain the holder until the name of the transferee is entered on the Register.
- (e) If the Directors refuse to register a transfer of any shares, they must, within two months after the date on which the transfer was lodged with the company, send to the transferee notice of the refusal.
- (f) The registration of transfers of shares of any class of shares may be suspended at such time and for such periods (not exceeding 30 days in any year) as the Directors may from time to time determine.
- (g) No fee shall be charged for the registration of any instrument or transfer of other document relating to or affecting the title to any shares.

(v) Distribution on liquidation

If the Company shall be wound up, the Liquidator may, with the sanction of an Extraordinary Resolution, divide among the members in specie any part of the assets of the Company and any such division may be

otherwise than in accordance with the existing rights of the members, but so that if any division is resolved otherwise than in accordance with such rights the members shall have the same right of dissent and consequential rights as if such resolution were a Special Resolution. With the same authority the liquidator may vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he thinks fit. No member shall be compelled by the liquidator to accept any assets in which there is a liability or potential liability.

(vi) Unclaimed dividends

All unclaimed dividends or other monies payable on or in respect of a share may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed. Dividends unclaimed for a period of 12 years from the date of payment shall, if the Directors so resolve, be forfeited and shall revert to the Company. Dividend warrants and cheques may cease to be sent to a member if such instruments have been returned undelivered to or left uncashed by that member on at least two consecutive occasions.

(vii) Failure to disclose interests in shares

If a member, or other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 212 of the Act and has failed in relation to any shares (the “default shares”) to give the Company the information thereby required within 14 days from the date of service of the notice, the following sanctions shall apply unless the Directors otherwise determine:

- (a) the member is not entitled in respect of the default shares to be present or to vote (in person, by representation or by proxy) at any general meeting or at any separate meetings of the holders of any class of shares or on a poll or to exercise any other right conferred by membership in relation to any such meeting or poll; and
- (b) where the default shares represent at least 0.25 per cent. of the nominal value of the issued shares of their class a dividend or any other amount payable in respect of the default shares shall be withheld by the Company, which shall have no obligation to pay interest on it, and the member shall not be entitled to elect to receive shares instead of that dividend. No transfer, other than an excepted transfer, as specified in the Articles, of any of the default shares held by the member shall be registered unless the member is not himself in default in supplying the information required and he proves to the satisfaction of the Directors that no person in default in supplying the information required is interested in any of the shares the subject of the transfer.

(viii) Directors

- (a) Unless otherwise determined by ordinary resolution of the Company the number of Directors shall not be less than two, nor more than ten. The Company may from time to time by ordinary resolution fix a maximum number of Directors and from time to time may vary that number.
- (b) A Director is not required to hold any qualification shares but shall be entitled to receive notice of, attend and speak at all General Meetings of the Company and of any class of members of the Company.
- (c) The Directors of the Company (but not the Directors appointed to an executive office or alternate directors) shall be entitled to receive by way of fees for their services in each year such sum as the Board shall from time to time determine not exceeding £60,000 in aggregate per annum or such greater sum as the Company in General Meeting by ordinary resolution shall from time to time authorise, such sum to be divided amongst the Directors in such proportions and in such manner as the Board may agree and failing that equally.
- (d) The Directors are also entitled to be repaid all travelling, hotel and other incidental expenses incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Board Meetings, Committee Meetings or General Meetings or otherwise incurred while engaged on the business of the Company.
- (e) If by arrangement with the Board, any Director shall serve on any committee or devote special attention to the business of the Company or perform or render any special duties or services outside his ordinary duties as a Director, the Board may pay him special remuneration, in addition to any fees or ordinary remuneration, and such special remuneration may be by a lump sum or by way of salary, commission, participation in profits or otherwise as may be arranged, and shall be charged as part of the Company's ordinary working expenses.

- (f) Subject to the Act, the Directors may appoint one or more of their body to be the holder of any executive office (except that of auditor) on such terms and for such period as they think fit. A Director holding such executive office shall receive such remuneration as the remuneration committee of the Board may determine in addition to or in substitution for his ordinary remuneration as a Director.
- (g) At the Annual General Meeting of the Company in every year one-third of the Directors for the time being (other than any Directors not subject to retirement by rotation) or, if their number is not less than three or a multiple of three, then the number nearest to but (except when less than three Directors are subject to retirement by rotation) not exceeding one-third, shall retire from office.
- (h) The Directors to retire in every year shall be those who are subject to retirement by rotation and who have been longest in office since their last election, but as between persons who become Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.
- (i) No Director shall vacate or be required to vacate his office as a Director on or by reason of his attaining or having attained the age of 70, and no special notice need be given of any resolution for the re-appointment or appointment or approving the appointment as Director of a person who shall have attained the age of 70.
- (j) No Director or intending Director shall be disqualified by his office from contracting with the Company, nor is any contract or arrangement entered into on behalf of the Company in which any Director is in any way, directly or indirectly, interested liable to be avoided, nor is any Director so contracting or being so interested liable to account to the Company for any profit realised thereby, but the nature of the interest must be declared by the Director at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration.
- (k) Save as provided below, a Director may not vote in respect of any contract or arrangement or any other proposal whatsoever in which he has a material interest otherwise than by virtue of his interests in shares and debentures or other securities of or otherwise in or through the Company. A Director shall not be counted in the quorum of a meeting in relation to any resolution on which he is debarred from voting.
- (l) A Director is (in the absence of some other material interest than is indicated below) entitled to vote (and will be counted in the quorum) in respect of any resolution concerning any of the following matters:
 - (A) the giving of any security, guarantee or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
 - (B) the giving of any security, guarantee or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security;
 - (C) any contract, arrangement, transaction or proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase as a participant in the underwriting or sub-underwriting thereof;
 - (D) any contract, arrangement, transaction or proposal concerning any other company in which he is interested directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he is not the holder of or beneficially interested in 1 per cent. or more of any class of the equity share capital of such company (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed for the purpose of this Article to be a material interest in all the circumstances);
 - (E) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement, death or disability benefits scheme which relates both to Directors and employees of the Company or any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates;
 - (F) any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
 - (G) any arrangements for the benefit of the employees of the Company or of any of its subsidiaries under which the Director benefits in a similar manner as the employees and which does not accord

to any Director as such any privilege or advantage not accorded to the employees to whom such arrangements relate; and

- (H) a contract, arrangement, transaction or proposal concerning the purchase or maintenance for any Directors of any insurance policy against liabilities incurred in connection with the discharge of that Director's duties or exercise of his powers in relation to his duties in relation to the Company.

(ix) Borrowing powers

The Board may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures or other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in respect of its subsidiaries so as to ensure (as regards to its subsidiaries in so far as they can) that the aggregate amount for the time being outstanding in respect of the monies borrowed or secured by the Group (exclusive of monies owing by one member of the Group to another) shall not at any time, without the previous sanction of the Company in General Meeting by an ordinary resolution, exceed an amount equal to four times the Adjusted Capital and Reserves, as defined by the Articles.

(x) Variation of rights

All or any of the rights or privileges for the time being attached to any share or class of shares in the capital of the Company (and notwithstanding that the Company may be or be about to be in liquidation) may be varied or abrogated (i) in such manner (if any) as may be provided by such rights or (ii) in the absence of any such provision, either with the consent in writing of the holder of not less than three-quarters in nominal value of the issued shares of the class, or with the sanction of an Extraordinary Resolution passed at a separate General Meeting of the holders of shares of the class duly convened and held as hereinafter provided (but not otherwise). To every such meeting the provisions of the Articles relating to General Meeting shall *mutatis mutandis* apply, but so that the quorum thereat shall be persons holding or representing by proxy one third of the nominal amount paid up of the issued shares of the class, and that each holder of shares of the class, present in person or by proxy, shall on a poll be entitled to one vote for every share of the class held by him, and if at any adjourned meeting of such holders such quorum as aforesaid is not present any two holders of shares of the class who are present in person or by proxy shall be a quorum.

Subject to the terms on which any shares may be issued, the rights or privileges attached to any class of shares in the capital of the Company shall be deemed to be varied or abrogated by the reduction of the capital paid up on such shares or by the allotment of further shares ranking in priority thereto for payment of a dividend or repayment of capital but shall not be deemed to be varied or abrogated by the creation or issue of any new shares ranking *pari passu* in any respect (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued.

(xi) Capitalisation of profits

Subject to the provisions of the Act and by ordinary resolution, the Directors may resolve to capitalise an amount standing to the credit of reserves whether or not available for distribution, appropriate the sum resolved to be capitalised to the members in proportion to the nominal amount of shares held by them respectively and apply that sum on their behalf in paying up amounts unpaid on shares held by them or in paying up in full unissued shares or debentures of a nominal amount equal to that sum and the Directors may make any arrangements they think fit to resolve a difficulty arising in the distribution of a capitalised reserve.

(xii) Gratuities and pensions

The Directors may pay or agree to pay gratuities, pensions or other retirement, superannuation, insurance, and death or disability benefits to any past or present employee or Director of the Company or any subsidiary undertaking or any body corporate associated with or any business acquired by any of them and to any widow or dependents of any such person (as well before as after he ceases to hold such office or employment) and may contribute to any fund or pay premiums for the purchase or provision of any such benefit.

(xiii) Untraced shareholders

The Company shall be entitled to sell the shares of a member or person entitled on death or bankruptcy of a member if all warrants and cheques in respect of at least three dividends sent to such a member or person

have remained unclaimed and uncashed for a period of 12 years and the Company has, at the expiration of such period, given notice in a national newspaper and an appropriate local newspaper (having first given the London Stock Exchange notice of its intention to do so) and for a period of three months following the said advertisement no indication is received as to the whereabouts or existence of such member or person. The Company shall be obliged to account to the member or such other person for the net proceeds of sale without interest. All dividends unclaimed for a period of 12 years after having been declared shall, if the Directors so resolve, be forfeited and shall revert to the Company.

(xiv) Purchase of own shares

Subject to the provisions of the Act, the Company is authorised to enter into any contract for the purchase of all or any of its shares of any class (including any redeemable shares) at any price and any contract under which it may, subject to any conditions, become entitled or obliged to purchase all or any of such shares. Every contract entered into in pursuance of this shall be authorised by such resolution of the Company as may be required by the Act, but subject thereto the Directors shall have full power to determine or approve the terms of any such contract.

(xv) CREST

CREST, a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument, was introduced in August 1996.

The Articles are consistent with the provisions of CREST and, *inter alia* allow for the holding and transfer of shares in uncertificated form in accordance with the provisions of the Uncertificated Securities Regulations 1995.

10. Litigation

(a) Existing Group

Save as set out below, no member of the existing Group (being represented by the Company its wholly owned subsidiaries and its interests in each of Revenant and Middlesex OEMK, the "Existing Group") is or has been engaged in any legal or arbitration proceedings nor are any such proceedings pending or threatened by or against any member of the Existing Group which may have or have had during the twelve months prior to the date of this document a significant effect on the financial position of the Existing Group.

On 11 February 1999 the Company received a claim for US\$257,050.70 in respect of a guarantee allegedly given by the Company in favour of BASF Aktiengesellschaft in respect of the obligations of a Joint-Venture Agritech, Vydvisnenev, Ukraine. Following legal advice, the Company is vigorously defending the claim against it made by BASF Aktiengesellschaft. Although no legal proceedings have been commenced, the Company is actively reviewing various possibilities for counter-claims that it believes may exist against third parties.

(b) OEMK Shares

There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) relating to the OEMK Shares being disposed of by Middlesex which may have or have had during the twelve months prior to the date of this document a significant effect upon the financial position of the OEMK Shares.

(c) Middlesex OEMK

There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) relating to the shares in Middlesex OEMK to be acquired by Middlesex from Sir David Alliance and Oskmet which may have or have had during the twelve months prior to the date of this document a significant effect on the financial position of the Middlesex OEMK Shares.

11. Share Option Schemes

(a) The Executive Share Option Scheme

(i) General

The Executive Share Option Scheme (“Executive Scheme”) is administered by the remuneration committee appointed by the Board of Directors. In any case where an option is to be granted to a Director, being a member of the Board the Director may not vote or be counted in the quorum present at any meeting in relation to the question, whether or not or to what extent he may receive and retain benefits under the Executive Scheme.

(ii) Eligibility

Any Director, whether or not such Director is an employee, (who is required to devote not less than 25 hours per week to his duties) and any employee (who is required to devote not less than 20 hours per week to his duties) of the Company or of any participating subsidiary (“eligible employees”) may participate in the Executive Scheme at the invitation of the Directors provided that they are not within two years of their retirement date.

(iii) Grant of options

Options may only be granted by the Board within 42 days after the date on which the Executive Scheme is adopted by the Company in general meeting, or thereafter, within 42 days after the announcement by the Company of its trading results for any financial year or half year. The consideration payable to the Company for the grant of an option shall be the sum of £1, which sum shall not be deemed to be a part payment of the option price of the shares comprised in an option. An option is not transferable and is personal to the option holder.

(iv) Price

The price payable for each Ordinary Share under an option is determined by the Directors before the grant of the option, provided that while the Ordinary Shares are listed on the Official List the price may not be less than the lowest middle market quotation for an Ordinary Share (as derived from the London Stock Exchange Daily Official List) during the twenty dealing days preceding the date of invitation by the Company to eligible employees to accept the grant of such options, any may not be less than the nominal value of a share.

(v) Exercise of options

An option granted under the Executive Scheme may not in normal circumstances be exercised in whole or in part earlier than three years after the date on which it was granted and later than ten years after the date of such grant. Exercise of an option at that time will depend on the satisfaction of the performance conditions attached to it at the time it was granted. If an option holder ceases to be an employee or director by reason of retirement or by reason of illness, injury, disability, redundancy or (at the discretion of the Directors) in other exceptional circumstances, he may exercise his option within six months of such cessation. Special provisions apply in the case of a reconstruction, change of control or liquidation of the Company and such provisions may permit the early exercise of options even if the relevant performance conditions are not at the time satisfied. In the event that another company acquires control of the Company, an option holder may with the consent of the acquiring company release his option in exchange for the grant of an equivalent option over shares in the acquiring company or other company.

(vi) Limits of the Scheme

The maximum number of Ordinary Shares which may be issued on the exercise of options granted under the Executive Scheme and the Existing Share Option Schemes and under any other employees’ share scheme of the Company during the ten year period ending on the date on which the option is, was, or is to be granted may not exceed 83,940,623 Ordinary Shares in aggregate (which represents 10 per cent. by number of the Ordinary Share capital expected to be in issue or allotted on 26 October 1996) save that the maximum number of Ordinary Shares which may be issued on the exercise of options granted under the Executive Scheme shall not exceed such number as represents 10 per cent. of the issued share capital of the Company from time to time.

(vii) Rights attaching to Ordinary Shares

All Ordinary Shares issued under the Executive Scheme will rank *pari passu* with all other Ordinary Shares for the time being in issue (save as regards any rights attaching to such Ordinary Shares by reference to a record date prior to the date of allotment, where relevant) and, if the Ordinary Shares are then quoted on the London Stock Exchange, application will be made for such shares to be admitted to the Official List.

(viii) Variations of capital

In the event of any variation of the share capital of the Company by way of capitalisation or rights issue, or by way of sub-division, consolidation or reduction, or otherwise, the number of Ordinary Shares subject to any option and the price payable upon the exercise of any option may be adjusted by the Directors provided that (except in the case of a capitalisation issue) the Directors are independently advised that any such adjustment is fair and reasonable.

(ix) Amendment of the Executive Scheme

The Directors may at any time amend the Executive Scheme provided that the prior approval of the Company in general meeting is obtained in the case of any alteration or addition to the advantage of optionholders or potential optionholders. This proviso will not apply if the amendment is a minor amendment to benefit the administration of the Executive Scheme or in order to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or the Company or a member of its Group.

(b) The Executive Share Incentive Scheme

(i) General

The Executive Share Incentive Scheme ("Old Scheme") is administered by the Board of Directors. The Old Scheme was adopted by the Company in General Meeting on 28 June 1991. No fresh options can be granted thereunder since the grant of options was restricted to the five year period following the adoption of the Old Scheme. Since options can be exercised up to four years from the date of grant, only one existing option granted under the Old Scheme (over 4,000,000 shares) remains exercisable.

(ii) Eligibility

Any Director could participate in the Old Scheme at the invitation of the Directors provided that they were not within two years of their retirement date. In any case where an option was to be granted to a Director, being a member of the Board, the Director could not vote or be counted in the quorum present at any meeting in relation to the question, whether or not or to what extent he may receive and retain benefits under the Old Scheme.

(iii) Grant of options

Options could only be granted by the Board within 42 days after the date on which the Old Scheme was adopted by the Company in general meeting, or thereafter, within 42 days after the announcement by the Company of its trading results for any financial year or half year. The consideration payable to the Company for the grant of an option was, save where a subsisting option was being surrendered in return for the grant of an option, the sum of £1, which sum would not be deemed to be a part payment of the option price of the shares comprised in an option. An option is not transferable and is personal to the option holder.

(iv) Price

The price payable for each Ordinary Share under an option was determined by the Directors before the grant of the option and would not be less than the average middle market quotation for an Ordinary Share (as derived from the London Stock Exchange Daily Official List) for the five dealing days preceding the date of invitation by the Company to eligible employees to accept the grant of such options, and would not be less than the nominal value of a share (and, where a subsisting option was being surrendered in return for the grant of an option, not less than the exercise price of that option).

(v) Exercise of options

An option granted under the Old Scheme could in normal circumstances be exercised in whole or in part at any time in the four year period commencing on the date on which it was granted and ending four years after the date of such grant (or such earlier date as may have been specified at grant). If an option holder ceased to be a director (and, if relevant an employee) by reason of retirement or by reason of illness, injury, disability,

redundancy or upon his employment being terminated other than by lawful dismissal, he could exercise his option within six months of such cessation, following which it would lapse. Special provisions apply in the case of a reconstruction, change of control or liquidation of the Company permitting the exercise of options. In the event that another company acquires control of the Company, an option holder may with the consent of the acquiring company release his option in exchange for the grant of an equivalent option over shares in the acquiring company or other company.

(vi) Limits of the Scheme

The maximum number of Ordinary Shares which could be issued on the exercise of options granted under the Old Scheme and various other schemes (now terminated) was 20,275,375 Ordinary Shares in aggregate (which represented 10 per cent by number of the Ordinary Share capital in issue or allotted on 6 November 1989). This could be varied where the Company's share capital was varied.

(vii) Rights attaching to Ordinary Shares

All Ordinary Shares issued under the Old Scheme will rank *pari passu* with all other Ordinary Shares for the time being in issue (save as regards any rights attaching to such Ordinary Shares by reference to a record date prior to the date of allotment, where relevant) and, if the Ordinary Shares are then quoted on the London Stock Exchange, application will be made for such shares to be admitted to the Official List.

(viii) Variations of capital

In the event of any variation of the share capital of the Company by way of capitalisation or rights issue, or by way of sub-division, consolidation or reduction, or otherwise, the number of Ordinary Shares subject to any option and the price payable upon the exercise of any option may be adjusted by the Directors provided that the Directors are independently advised that any such adjustment is fair and reasonable.

(ix) Amendment of the Old Scheme

The Directors could at any time amend the Old Scheme provided that the prior approval of the Company in general meeting was obtained for certain amendments.

(c) Employee Incentive Option Scheme

The Employee Share Incentive Scheme was adopted by the Company on the same date, and on similar terms, as the Old Scheme, save that certain employees were eligible rather than Directors. No fresh options can be granted under the Employee Incentive Option Scheme and no options remain exercisable thereunder.

12. Significant changes

(a) Existing Group

Save as disclosed in paragraph 5 of Part 1 and in Part 6 of this document, there has been no significant change in the financial or trading position of the Existing Group (on the basis that the disposal of the OEMK Shares has taken place) since 30 June 1999 being the date to which the latest unaudited interim statement of the Company was prepared.

(b) OEMK Shares

There has been no significant change in the financial or trading position of the OEMK Shares since 31 December 1998 being the date to which the latest audited financial statements for Revenant (which owns the OEMK Shares) were prepared.

(c) Middlesex OEMK

Save as disclosed in paragraph 5 of Part 1 and in Part 6 of this document there has been no significant change in the financial or trading position of Middlesex OEMK since 31 December 1998 being the date to which the latest audited financial statements of Middlesex OEMK were prepared.

13. Material contracts

(a) Existing Group

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Existing Group during the two years preceding the date of this document and are, or may be, material:

- (i) The Settlement Deed (as defined and described in Part 3 of this document).
- (ii) A deed of waiver dated 21 October 1999 between the parties to the shareholders' agreement dated 13 July 1998 (the "Consortium Agreement") referred to in paragraph 13(a)(viii)(ii) below pursuant to which the parties thereto (save for GUPVO Almazyouvelirexport) waived any and all of Middlesex's obligations and liabilities arising out of and in connection with the Consortium Agreement on the transfer of the OEMK Shares to Sir David, and/or the exercise of the Option, as if these shares were not subject to the terms and provisions of the Consortium Agreement.
- (iii) A settlement agreement dated 19 August 1999 between the Company (1) WMAC Investment Corporation ("WMAC") (2) Leucadia National Corporation (3) and Swan Metals (Jersey) Limited (4) relating to the payment by Middlesex on behalf of Swan Metals (Jersey) Limited of US\$320,000 in cash and the transfer of 60,108 shares representing 0.32 per cent. of the entire issued share capital of Lebedinsky to WMAC, in full and final settlement of shareholder loans made available to Swan Metals (Jersey) Limited by WMAC. As part of the agreement WMAC also agreed to transfer its entire holding of 10,000 shares of US\$1 each in Swan Metals (Jersey) Limited to Middlesex for the nominal consideration of US\$1.
- (iv) An agreement dated 29 September 1999 made between Leucadia National Corporation (1) and Middlesex (2) pursuant to which the 60,108 shares in Lebedinsky referred to in paragraph (iii) above were transferred by Leucadia to Middlesex in settlement of an amount of US\$120,000 due from WMAC to Middlesex for services rendered.
- (v) An agreement dated 28 May 1998 made between OEMK (1), Oskmet (UK) Limited (2) and Middlesex (3) (the "New OEMK/Middlesex Agreement") as amended by three addenda dated 10 June 1998, 28 June 1998 and 13 October 1999 respectively, pursuant to which the existing agreement dated 5 June 1996 between the same parties (the "Existing OEMK/Middlesex Agreement") was amended, supplemented and renewed. Both such agreements relate to the appointment of Oskmet (UK) Limited to act as the marketing and export arm of OEMK and to arrange a pre-export finance facility to OEMK, including the provision of guarantees from Middlesex securing Oskmet (UK) Limited's financial support of this facility. The New OEMK/Middlesex Agreement is for an initial term of five years effective from 28 May 1998 and will be automatically renewed for a further one year term unless otherwise terminated by OEMK or Oskmet by giving a six month notice to that effect in writing. The parties have also agreed to negotiate a further three year extension of the New OEMK/Middlesex Agreement prior to its termination.
- (vi) A brokers' note dated 19 October 1998 between Middlesex (1) and Hichens (2) pursuant to which Middlesex disposed of 11,000,000 ordinary shares of 5 pence each in Dominion Energy PLC for a gross consideration of £218,900.
- (vii) A brokers' note dated 31 July 1998 between Middlesex (1) and CTSC MIFK Interfin (2) pursuant to which Middlesex acquired 333,333 ordinary shares of 50 roubles each in Lebedinsky for a consideration of US\$2,999,997.
- (viii) The following contracts have already been available for inspection during the last two years and will also be available for inspection in accordance with paragraph 17 of Part 7 below:
 - (i) An agreement dated 21 April 1998 between the Company (1) and Masoud Alikhani (2) pursuant to which the Company disposed of its entire equity stake of 45 per cent. in Agrifarm International Limited;
 - (ii) A shareholders' agreement dated 13 July 1998 between the Company and other shareholders in OEMK containing provisions regulating the exercise of the parties' voting rights in OEMK and pre-emption rights on a proposed transfer of shares by the parties thereto; and
 - (iii) A brokers' note dated 27 April 1998 pursuant to which Revenant acquired 6.59 per cent. of OEMK's issued share capital for a consideration of US\$9,128,395.
- (ix) A subscription agreement dated 24 September 1999 entered into between LebGOK (1) and the Company (2) pursuant to which LebGOK has agreed to underwrite 50 per cent. of the Rights Issue by way of application of its Subscription Deposit of £506,504 and any balance thereof being used in respect of the Subscription, as described more fully in Part 2 of this document.

- (x) A subscription agreement dated 24 September 1999 entered into between Oskmet (1) and the Company (2) pursuant to which Oskmet has agreed to underwrite 50 per cent. of the Rights Issue by way of application of its Subscription Deposit of £506,504, and any balance thereof being used in respect of the Subscription, as described more fully in Part 2 of this document.

(b) OEMK Shares

Other than set out below, there are no material contracts relating to the OEMK Shares being disposed of which have been entered into during the two years preceding the date of this document:

- (i) The Settlement Deed (as defined and described in Part 3 of this document).

(c) Middlesex OEMK

Other than set out below, there are no material contracts relating to the shares in Middlesex OEMK being acquired by the Group which have been entered into during the two years preceding the date of this document:

- (i) The supplemental agreement to the Middlesex OEMK Shareholders' Agreement dated 4 December 1997 and made between (1) Middlesex, (2) Balli Trading, (3) Sir David Alliance, (4) Middlesex OEMK, (5) Oskmet (UK) Limited and (6) Oskmet; and
- (ii) The Settlement Deed (as defined and described in Part 3 of this document).

14. Working Capital

The Company is of the opinion that, following completion of the Proposals and taking into account the minimum net proceeds of the Rights Issue and the Subscription, the working capital available to the Group is sufficient for the Group's present requirements, that is for at least the next 12 months from the date of publication of this document.

15. Indebtedness

As at the close of business on 17 September 1999, the Middlesex Group (on the basis that the acquisition of the Middlesex OEMK Shares and the shares in Revenant had taken place) had the following indebtedness which included 100 per cent. of the indebtedness relating to Revenant and Middlesex OEMK which it will continue to hold upon completion of the Transactions:

	Middlesex Group £'000
Secured	
Bank loans	480,503
Bank overdrafts	1,414,019
	<u>1,894,522</u>
Unsecured	
Other loans	<u>6,070,937</u>

At the close of business on 17 September 1999 the Middlesex Group had given guarantees and indemnities to third parties of £1,951,676. The Middlesex Group had outstanding forward exchange contracts for £360,164 on which the estimated gain arising from early termination is £6,994.

The indebtedness and cash of Middlesex Group includes 100 per cent. of the indebtedness and cash of Revenant and Middlesex OEMK which were owned 60 per cent. and 51 per cent. respectively by the Company on 17 September 1999.

Save as disclosed above, at 17 September 1999, no member of the Middlesex Group, apart from intra-group liabilities, had outstanding any loan capital, term loans, other borrowings, or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, or obligations under finance leases, mortgages, charges, guarantees or other contingent liabilities.

Foreign currency amounts have been translated into sterling at the exchange rates at close of business on 17 September 1999.

The disposal of the OEMK Shares to Sir David Alliance has been made free of any indebtedness. At 17 September 1999, therefore, the OEMK Shares had no attached outstanding loan capital, term loans, other borrowings, or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, or obligations under finance leases, mortgages, charges, guarantees or other contingent liabilities. However, as part of the Transactions the loan principal owing to Sir David Alliance will be deemed to have been repaid, amounting to US\$7 million.

As at 17 September 1999, the Middlesex Group had cash of £7,883,143 of which £2,349,985 was pledged as security against the guarantees described above.

16. Miscellaneous

- (a) Beaumont Cornish has given, and has not withdrawn, its written consent to the issue of this document with the inclusion herein of references to its name in the form and context in which such references appear and have authorised those parts where its name appears for the purposes of section 152(1)(e) of the Financial Services Act 1986.
- (b) Deloitte & Touche have given, and have not withdrawn, their written consent to the issue of this document with the inclusion therein of their report set out in Part 6 of this document and the references to their name in the form and context in which such report and references appear and have authorised the contents of those parts of the document which comprise their report and such references to their name for the purposes of section 152(1)(e) of the Financial Services Act 1986.
- (c) The Rights Issue is fully underwritten by LebGOK and Oskmet in respect of 67,533,853, Ordinary Shares each. LebGOK and Oskmet have their registered offices at Via Cassarinetta 1, Lugano CH – 6900, Switzerland and Obmoos 4, P.O. Box 1003, 6301 Zug, Switzerland respectively .
- (d) The New Ordinary Shares will initially be issued by way of renounceable Provisional Allotment Letters but following the expiration of the period for renunciation, and when fully paid, the New Ordinary Shares will be in registered form. Pending the despatch of definitive share certificates, which is expected to be on 21 December 1999, transfers will be certified against the register. Shareholders who wish to hold New Ordinary Shares in uncertificated form will need to apply for their New Ordinary Shares to be converted into uncertificated form in accordance with CREST procedures. None of the New Ordinary Shares have been marketed or are available in whole or in part to the public. The New Ordinary Shares may be held in uncertificated form.
- (e) It is expected that the total costs and expenses payable by the Company in connection with the Rights Issue and Subscription will be approximately £230,000 (exclusive of VAT). No commissions will be paid in connection with the Rights Issue and the Subscription.
- (f) The issue price of each New Ordinary Share represents a premium of 0.5p per Ordinary Share over the nominal value of 0.25p per Ordinary Share.
- (g) The Company's auditors are Deloitte & Touche, Chartered Accountants and Registered Auditors, Hill House, 1 Little New Street, London EC4A 3TR who have been auditors of the Company or the Group since 15 May 1984 the date of incorporation of the Company. The accounts of the Company for its three financial periods ended 31 December 1996, 1997 and 1998 have been audited without qualification. Deloitte & Touche have, however, emphasised certain matters set out in item A of Part 5 of this document.

17. Documents available for inspection

Copies of the following documents will be available for inspection at the registered office of the Company and at the offices of Watson, Farley & Williams, 15 Appold Street, London EC2A 2HB during normal business hours on any weekday (Saturdays and public holidays excepted) from the date of this document up to and including the date of the Extraordinary General Meeting:

- (i) The material contracts referred to in paragraph 13 above;
- (ii) Directors service contracts referred to in paragraph 7 above;
- (iii) The memorandum and articles of association of the Company;

- (iv) The Company's audited financial statements for the two years ended 31 December 1997 and 1998;
- (v) The audited financial statements for each of Middlesex OEMK and Revenant for the two years ended 31 December 1997 and 1998;
- (vi) The Interim Statement for the six months to 30 June 1999;
- (vii) The Warrant Instrument; and
- (viii) The consent letters from Beaumont Cornish and Deloitte & Touche.

21 October 1999

MIDDLESEX HOLDINGS plc

(Registered in England and Wales, No. 1816510)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Company will be held at The Regents Park Marriott Hotel, 128 King Henry's Road, London NW3 3ST at 10.00 a.m. on 16 November 1999 for the purpose of considering and if thought fit passing the following ordinary and special resolutions.

ORDINARY RESOLUTIONS

1. THAT, subject to and conditional upon the passing of Resolutions 4 and 5 set out in this notice of meeting:
 - (a) the disposal by the Company of 221,828 shares of 1,000 roubles each in the issued share capital of Oskol Electrometallurgical Kombinat ("**OEMK**") to Sir David Alliance and the agreements relating to the Call Option and the Put Option as set out in the Settlement Deed (defined below);
 - (b) the purchase by the Company of 10,000 ordinary shares of US\$1 each in the issued share capital of Revenant Limited from Sir David Alliance for US\$1;
 - (c) the acquisition by the Company of 2,450,000 ordinary shares of US\$1 each in the issued share capital of Middlesex OEMK plc ("**Middlesex OEMK**") from Sir David Alliance; and
 - (d) the acquisition by the Company of 2,450,000 ordinary shares of US\$1 each and 50,000 "A" ordinary shares of £1 each in the issued share capital of Middlesex OEMK from Oskmet AG ("**Oskmet**");

in each case on the terms and conditions of a deed dated 21 October 1999 and made between, the Company (1), Sir David Alliance (2), Revenant (3), Middlesex OEMK (4) and Oskmet (the "**Settlement Deed**") a copy of which is submitted to the Meeting signed by the Chairman (for the purposes of identification) and as described in more detail in the circular letter dated 21 October 1999 from the Company to its shareholders (the "**Circular**"), be and is hereby approved and that the Directors of the Company be and are hereby authorised to execute and complete the Settlement Deed in accordance with its terms and are further authorised to waive, amend, vary or add to any terms of the Settlement Deed PROVIDED THAT such changes are non-material in nature and to undertake and execute all acts and other documents as they may consider necessary or expedient in relation to the implementation of the Settlement Deed.

2. THAT, subject to and conditional upon the passing of Resolutions 4 and 5 set out in this Notice of Meeting, the subscription by Oskmet for up to 67,533,853 ordinary shares of 0.25p each in the issued share capital of the Company on the terms and conditions of an agreement dated 24 September 1999 and made between the Company and Oskmet (the "**Oskmet Subscription Agreement**") a copy of which is submitted to the Meeting signed by the Chairman (for the purposes of identification) and as described in more detail in the Circular, be and is hereby approved and that the Directors of the Company be and are hereby authorised to execute and complete the Oskmet Subscription Agreement in accordance with its terms and are further authorised to waive, amend, vary or add to the terms of the Oskmet Subscription Agreement PROVIDED THAT such changes are non-material in nature and to undertake and execute all acts and other documents as they consider necessary or expedient in relation to the implementation of the Oskmet Subscription Agreement.
3. THAT, subject to and conditional upon the passing of Resolutions 4 and 5 set out in this Notice of Meeting, the subscription by LebGOK Trading Limited AG ("**LebGOK**") for up to 67,533,853 ordinary shares of 0.25p each in the issued share capital of the Company on the terms and conditions of an agreement dated 24 September 1999 and made between the Company and LebGOK (the "**LebGOK Subscription Agreement**") a copy of which is submitted to the Meeting signed by the Chairman (for the purposes of identification) and as described in more detail in the Circular, be and is hereby approved and that the Directors of the Company be and are hereby authorised to execute and complete the

LebGOK Subscription Agreement in accordance with its terms and are further authorised to waive, amend, vary or add to the terms of the LebGOK Subscription Agreement provided that such changes are non-material in nature and to undertake and execute all acts and other documents as they consider necessary or expedient in relation to the implementation of the LebGOK Subscription Agreement.

4. THAT,

- (a) the authorised share capital of the Company be and is hereby increased from £2,800,000 to £3,750,000 by the creation of an additional 380,000,000 ordinary shares of 0.25p each; and
- (b) for the purposes of section 80 of the Companies Act 1985 (the “Act”) and so that expressions used in this resolution shall bear the same meanings as in the said section 80, the Directors of the Company be and are generally and unconditionally authorised in substitution for all subsisting authorities to the extent unused, to exercise all powers of the Company to allot relevant securities up to an aggregate nominal amount of £1,723,984.41 to such persons and at such times and on such terms as they think proper provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution save that the Company be and is authorised to make prior to the expiry of such period any offer or agreement which would or might require relevant securities to be allotted after the expiry of the said period and the Directors of the Company may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

SPECIAL RESOLUTION

5. THAT, subject to and conditional upon the passing of Resolution 4 in the notice convening this Meeting, the Directors of the Company be and are hereby empowered in accordance with section 95 of the Act and in substitution for all subsisting authorities to the extent unused to allot equity securities (as defined in section 96 of the Act) for cash, pursuant to the authority conferred upon them by Resolution 4 to allot relevant securities (as defined in section 80 of the Act), as if section 89(1) of the Act did not apply to such allotment PROVIDED THAT the power conferred by this resolution shall be limited to:

- (i) the allotment of equity securities in connection with an issue or offering by way of rights in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of such allotment subject only to such exclusions or other arrangements as the Directors of the Company may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body in that territory;
- (ii) the allotment of 135,067,706 ordinary shares of 0.25p each in the share capital of the Company pursuant to the Rights Issue (as defined and described in more detail in the Circular);
- (iii) the allotment of up to 67,533,853 ordinary shares of 0.25p each in the share capital of the Company to Oskmet pursuant to the terms of the Oskmet Subscription Agreement;
- (iv) the allotment of up to 67,533,853 ordinary shares of 0.25p each in the share capital of the Company to LebGOK pursuant to the terms of the LebGOK Subscription Agreement;
- (v) the allotment of 20,000,000 ordinary shares of 0.25p each in the share capital of the Company to Sir David Alliance subject to and in accordance with the provisions of a warrant instrument to be entered into by the Company in the form attached to the Settlement Deed, as more particularly described in the Circular (the “Warrant Instrument”);
- (vi) the allotment of 20,000,000 ordinary shares of 0.25p each in the share capital of the Company to Oskmet subject to and in accordance with the provisions of the Warrant Instrument; and
- (vii) the allotment (otherwise than pursuant to sub-paragraphs (i), (ii), (iii), (iv), (v) and (vi) above) of equity securities up to an aggregate nominal amount of £135,000,

and this power, unless renewed, shall expire on the date of the next Annual General Meeting of the Company or, if earlier, the date being 15 months after the passing of this resolution. PROVIDED THAT the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors of the Company may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired and provided further that this authority shall be in substitution for and supersede and revoke any earlier power given to the Directors of the Company.

Registered office
Fifth Floor
100 Avenue Road
London NW3 3HF

By Order of the Board
J P Gorman, FCA
Company Secretary

21 October 1999

Notes:

- (1) Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, and on a poll, to vote on his behalf. A proxy need not be a member of the Company. A form of proxy is enclosed herewith.
- (2) Forms of Proxy must reach the Registrars not less than 48 hours before the time of the meeting and in default will not be treated as valid. Completion of a form of proxy will not preclude shareholders from attending and voting at the meeting in person should they wish to do so.
- (3) In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy will be accepted to the exclusion of the votes of any other joint holders. For these purposes seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- (4) In the case of a corporation the Form of Proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or duly authorised officer of the corporation.