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BAKYRCHIK GOLD PLC

Annual Report and Accounts

for the year ended 31 March, 1997



General information

London office and registered office	120 Old Broad Street London EC2N 1AR Tel: 0171 477 6710 Fax: 0171 477 6814
Auditors	KPMG Audit Plc 8 Salisbury Square London EC4V 8BB
Bankers	National Westminster Bank PLC Lothbury Office 41 Lothbury London EC2P 2BP
Registrars	The Royal Bank of Scotland PLC Caxton House Redcliffe Way Bristol BS99 7NH
Solicitors	Norton Rose Kempson House Camomile Street London EC3A 7AN
Proposed Nominated Adviser*	Nabarro Wells & Co. Limited Saddlers House Gutter Lane Cheapside London EC2V 6BR
Proposed Nominated Broker*	T Hoare & Co. Limited 4th Floor Cannon Bridge 25 Dowgate Hill London EC4R 2YA

*To be confirmed on the admission of the Ordinary Share capital of the Company to the Alternative Investment Market of the London Stock Exchange.



Directors and secretary

Gordon Toll CHAIRMAN*

AUSTRALIA

Mr G Toll, who is aged 50, was appointed Technical Director in 1995 and Chairman in November 1996. He was formerly Group Mining Executive with the RTZ Group.

Roger Harris MANAGING DIRECTOR†

GREAT BRITAIN

Mr R Harris, who is aged 53, was appointed Managing Director in July 1996. He was formerly Vice President at Elf's soda ash and caustic soda mining and chemical plants in Wyoming, USA. His 30 years of experience encompasses senior corporate management, underground mining and engineering and construction project management.

N Jaime Troncoso TECHNICAL DIRECTOR

UNITED STATES OF AMERICA

Mr N Jaime Troncoso, who is aged 55, was appointed Bakyrchik Project Manager in February 1996. He was then appointed Technical Director in November 1996. Prior to joining Bakyrchik, he was a project manager with Atlantic Richfield Company, where he spent 20 years working mainly on major US and international resource projects.

R Edward Flood NON-EXECUTIVE DIRECTOR

UNITED STATES OF AMERICA

Mr R E Flood, who is aged 52, is President of Indochina Goldfields Ltd. He has over 25 years of international experience in the mining industry. He was formerly with NERCO Minerals and more recently with Robertson, Stephens & Company, a US investment bank.

J (Jack) F McOuat NON-EXECUTIVE DIRECTOR**†

CANADA

Dr J McOuat, who is aged 64, is President and one of the founding partners of Watts, Griffis and McOuat of Toronto, a geology and mining engineering consultancy with offices in Canada, the USA and experience in over 120 countries.

Graham J Wickham NON-EXECUTIVE DIRECTOR*†

GREAT BRITAIN

Mr G J Wickham, who is aged 54, has 25 years experience in the London financial markets, specialising in investment analysis and, more recently, corporate finance.

Keith Donald COMPANY SECRETARY

GREAT BRITAIN

Mr K Donald, who is aged 42, was appointed Group Legal Adviser on 1 July, 1996. He was appointed Company Secretary on 8 July, 1996. He was formerly with BTR plc.

*Member of the remuneration committee

†Member of the audit committee



Chairman's statement and review of operations

The year under review has been difficult and characterised by deteriorating conditions for funding which have culminated in a proposal to restructure Bakyrchik Gold PLC ("the Company") as a minority owner of the Bakyrchik mine in Kazakhstan. Progress has been made in project engineering and the Company successfully negotiated the purchase of the 60 per cent. of the project formerly owned by the Government of Kazakhstan ("the Government"). This progress, however, was achieved against a background of a declining price of gold and events such as the Bre-X scandal and the Star Mining loss of tenure, which made fund raising for junior gold mining companies very challenging. In the light of this, and the substantial funds needed for the project in Kazakhstan, a financing and restructuring package has been negotiated. If approved by Shareholders, this will reduce the Company's interest in the Bakyrchik mine to 20 per cent. in return for Indochina Goldfields Ltd. ("Indochina") (the Company's largest shareholder) assuming all the indebtedness of the Group and providing the finance for the first stage of the mine's development.

Operations

A total of 70,350 tonnes of ore was mined and 2,653 ounces of gold produced from the Redox plant prior to its closure in July 1996. Subsequent activity of the mine focused on the completion of the stopes already opened and on footwall development in preparation for the first phase of development. In this initial phase, it is planned that the majority of the ore will be hauled to surface up a decline that starts at the bottom of number four open pit. The decline is being advanced both from the portal in the open pit and from underground. By the end of June 1997, it had been advanced a total of 435 metres. Research into an alternate hydrometallurgical process continued with construction of a small pilot plant which got underway in the summer of 1997. This pilot project is expected to produce some gold in late 1997 and through 1998. The work, however, has a long term focus and the technology is not planned for use in the initial phase of development.

A comprehensive review of ongoing costs was conducted in the first half of the year and a vigorous cost reduction program implemented. This included a large number of redundancies at the Bakyrchik mine site with the total work force being almost halved.

In March 1997, the Bakyrchik Mining Venture ("BMV") signed a Social Services Agreement with the local administration. This formally transferred a number of operations including the boiler plant, the water treatment plant and the sewage plant to the local administration. Under the old Soviet system, these plants served both the industrial facility and the local community, and prior to the new agreement had been staffed and operated by the BMV. The new agreement requires the BMV to continue its contribution of US\$2 million annually towards the operation of the plants and support of the town of Auezov but transfers over 200 people from the BMV payroll to the local administration.

During the year, Boart Longyear of North Bay, Ontario completed an extensive diamond drilling program designed to confirm the results of the drilling carried out in the Soviet era. Assay and geological data collected from this program was then combined with the Soviet data and used as the basis for a number of major engineering studies. Over 29,000 metres of drilling was completed. The results were excellent, and in general, showed that the Soviet drilling understated the *in situ* gold grades substantially. In the areas where a direct comparison was possible, the new drilling showed ore grades to be about 25 per cent. higher than those estimated from the Soviet data.



Chairman's statement and review of operations

Continued

Major engineering and feasibility was completed subsequent to the drilling program. A full scale Definitive Feasibility Study ("DFS") of a one million tonne per year operation was conducted by Minproc Engineers Limited of Perth, Australia and numerous sub-contractors. That work confirmed that underground mining using undercut drift and fill using a paste fill, was suitable and also demonstrated that fluid bed roasting of the whole ore was applicable to Bakyrchik ores. A summary of the results of this study were included in the Circular sent to Shareholders on 18 March, 1997. As this engineering work progressed, however, the suitability of a one million tonne per year operation as the initial phase of development, came into question when viewed against the background of the emerging difficult financing environment. An alternate plan, scaled down so as to minimise the capital spent on infrastructure, was produced by "factoring" the one million tonne DFS. This set initial annual ore production at about 400,000 tonnes and was subsequently judged to be a more prudent choice. A feasibility study at this production rate was completed by Kvaerner Metals Davy Limited of Toronto, Canada ("Kvaerner"). The Company has adopted this plan for the first phase of what is expected to be a multi-phased development. Kvaerner is proceeding with the detailed engineering that will precede construction.

In its study, Kvaerner confirmed the Measured and Indicated Resource estimate that had been compiled as part of the one million tonne DFS to be 10.7 million tonnes at 7.88 grams per tonne. From this, a sub-set of 9.01 million tonnes at 7.89 grams per tonne was classed as reserves. In the earlier DFS, an additional inferred resource in the study area alone was estimated to be 18.5 million tonnes at 7.90 grams per tonne. The total resource on the Bakyrchik licence is now estimated to be 57.47 million tonnes at 7.01 grams per tonne or 12.96 million ounces. These estimates do not include any adjustment to the Soviet data and probably underestimate the overall average ore grades significantly.

Changes in ownership of the Company and the BMV

In August 1996, Indochina acquired most of the shares and all of the options held by the Investor group headed by Mr R M Friedland, which had acquired shares and options in the Company in December 1995. The options were subsequently exercised yielding approximately US\$15 million to the Company and providing Indochina with approximately 27 per cent. of the Company's issued share capital and making them the Company's largest shareholder.

In mid-December 1996, following extensive negotiations, Central Asian Mining Limited, the wholly owned subsidiary through which the Company owns its interest in the BMV, entered into a conditional Acquisition Agreement with the Government to acquire the Government's 60 per cent. share of the BMV. The initial payment required under this Acquisition Agreement was a US\$5 million bonus and the first of four equal payments of US\$15 million. The bonus and the first US\$15 million were paid by Indochina in return for a 15 per cent. interest in the BMV. Under a financing agreement negotiated at the same time, Indochina provided the Company with a US\$20 million working capital loan.



The Acquisition Agreement maintains the major tax and commercial benefits that the BMV had enjoyed previously and added a number of improvements, in particular the unrestricted right to export and sell 100 per cent. of the refined precious metals and doré produced. This is believed to be the first agreement in the region permitting such a right. The Acquisition Agreement required the execution of several further agreements, in particular a Subsoil Use Contract which, amongst other things, codifies the operational terms and responsibilities under which the BMV will be managed. All the primary terms of this Subsoil Use Contract had been defined in the Acquisition Agreement.

The proposal to acquire the Government's 60 per cent. interest and the US\$20 million working capital loan from Indochina was put to Shareholders in a Circular, published on 18 March, 1997 and approved at an Extraordinary General Meeting held on 10 April, 1997. In that Circular, the Company highlighted the necessity of securing additional finance by the end of July 1997, when its working capital would be exhausted. The Company stated that it hoped to carry out an equity fund-raising to satisfy the remaining payments to the Government, to repay the loans from Indochina and to provide Bakyrchik's share of the capital to fund the first phase of development of the mine.

Since March 1997, financing of independent gold mining companies has become much more difficult due to events such as those at Bre-X and the decline in the price of gold. The Company was formally advised that it would not be possible for it to carry out a large equity funding in the prevailing market conditions. Discussions with major mining companies and financial institutions have not led to any viable alternative.

As anticipated, depletion of working capital meant that, without an injection of additional funds, the Company's financial position would have become critical by the end of July 1997. The Company had expected that the three outstanding acquisition payments of US\$15 million each, would be paid 6, 12 and 16 months after the completion date as set out in the Acquisition Agreement. In mid-May 1997, the Company was informed that the Government expected the second payment to be made some six months after the first. After review, the Company agreed that the second tranche of the acquisition consideration would be paid on receipt of a signed Subsoil Use Contract. This was obtained on 30 June, 1997 and the second tranche was paid on 1 July, 1997.

Against this background and the knowledge that no outside sources of significant funding had been identified, a Committee of the Independent Directors of the Company entered into discussions with Indochina, and negotiated a financing and restructuring arrangement that is now being put to Shareholders. If approved, the restructuring will eliminate the Company's debt and the need for it to arrange for funding of its equity share of the costs of the first phase of development but it will require that the Company give up substantial ownership in the BMV. Details of the proposed restructuring are given in a Circular to Shareholders which has been published at the same time as, and accompanies, this Annual Report.

As part of the restructuring arrangement, a bridge loan of US\$45 million was obtained from Gerald Metals, Inc. of Stamford Connecticut ("Gerald"). This was used to pay the second tranche of the acquisition consideration and will fund ongoing work at the mine. The bridge loan was guaranteed by Indochina and will be repaid from project financing to be arranged by Gerald.



Chairman's statement and review of operations

Continued

Under the proposed restructuring, Indochina will forgive its US\$20 million working capital loan and will assume responsibility for making the remaining acquisition consideration payments (including that made on 1 July, 1997) totalling a further US\$45 million. Indochina will also assume responsibility for arranging for the funds required to complete the first phase of development at the BMV including those representing the Company's 20 per cent. interest, which will be supplied in the form of a loan to be repaid out of the proceeds of future production. In return, the ownership of the project will be restructured from the current 85 per cent. held by the Company with 15 per cent. held by Indochina to 20 per cent. held by the Company and 80 per cent. by Indochina. The Company will have a right to buy back a further 10 per cent. interest, enabling it to increase its ownership to 30 per cent. In addition, a second joint venture in which the Company will have an 85 per cent. interest and management control will be established to explore certain areas of the Bakyrchik licences. Indochina will own the remaining 15 per cent. and will have certain rights to increase that to 49 per cent.

The London Stock Exchange has stated that, should Shareholders approve the restructuring, the Company would no longer be suitable for continuation of a full listing as it would no longer have management control over its principle asset. To allow uninterrupted trading of the Company's shares, the Directors have taken the necessary steps to allow the Company to move to the Alternative Investment Market ("AIM"), with admission to AIM becoming effective immediately following Shareholder approval of the proposals. Nabarro Wells & Co. Limited and T Hoare & Co. Limited have agreed to act as the Company's Nominated Adviser and Nominated Broker respectively in respect of this admission.

Results

The loss for the year ended 31 March, 1997 was US\$32,749,000 or US\$0.93 per share. The board of directors is not recommending the payment of a dividend.

Change of name

If Shareholders approve the proposals, the Company will no longer have management control over the BMV and may, in future, participate in projects with no connection with Bakyrchik or Kazakhstan. In such circumstances, the name Bakyrchik Gold PLC is no longer considered appropriate. Therefore, subject to Shareholder approval of the restructuring at the Extraordinary General Meeting, a resolution is also to be proposed that the Company name be changed to BKG Resources PLC.

Management changes

In June 1996, Mr R A Harris was appointed to the position of Managing Director. In November 1996, Mr R M Friedland resigned as co-chairman and Mr G L Toll was appointed as executive chairman. Mr N J Troncoso, who joined the Company in February 1996, was appointed to Mr G L Toll's former position as Technical Director, and Mr J Kotjo resigned as co-chairman and from the board of directors.

Three new non-executive directors were appointed during the year, Mr R E Flood, president of Indochina, Dr J F McQuat, president of Watts, Griffis and McQuat of Toronto and Mr G J Wickham, who has an extensive background in corporate broking.



After spending almost three years in Kazakhstan, Mr W J Hussey retired from the board of directors in May 1996. Mr K A Foo also retired in August 1996, having been involved in the Bakyrchik project since 1991. Mr N J Bridgen retired in January 1997, having been involved in the Company since its flotation in September 1993. Mr R M Friedland resigned from the board of directors in May 1997.

Outlook

Approval of the restructuring will greatly reduce the Company's direct role in the BMV but it will allow Shareholders to retain a significant interest in one of the world's largest gold resources without the burden of financing its initial phase of development. The Company will hold an 85 per cent. interest in, and have management control over, the exploration joint venture which together with the possible buy back of 10 per cent. of the BMV will be the focus of the Company's activities in the near term. The Company will also investigate other resource based opportunities.

G L Toll

Chairman



Directors' report

The directors present their annual report together with the audited financial statements for the year ended 31 March, 1997.

Activities

The Company and its subsidiary undertakings are engaged in the exploration and development of natural resources. The Group's only significant subsidiary is the Bakyrchik Mining Venture (formerly Bakyrchik Mining Joint Venture) which is engaged in the development of the Bakyrchik gold mine in Kazakhstan. A review of the operations of the Bakyrchik Mining Venture during the year is contained in the Chairman's Statement and review of operations on pages 3 to 7.

Subsequent to 31 March, 1997 the Company announced that it had entered into arrangements ("the Restructuring") which will involve transferring a majority interest and operating control of the Bakyrchik Mining Venture to Indochina Goldfields Ltd. ("Indochina"). The Restructuring will result in the Company ceasing to have management control over the Bakyrchik Mining Venture and as a result the Company will cease to be listed on the London Stock Exchange. The directors intend that the Company's Ordinary Shares will be admitted to listing on the Alternative Investment Market ("AIM") of the London Stock Exchange immediately following Shareholder approval of the Restructuring.

The Company will establish a separate exploration joint venture with Indochina relating to exploration acreage currently within the existing licence area of Bakyrchik Mining Venture. The Company will also investigate other resource based opportunities.

Restructuring of ownership of the Bakyrchik Mining Venture

On 13 December, 1996 the Company announced that it had entered into agreements with the Government of Kazakhstan and Indochina which would result in the Company increasing its interest in the Bakyrchik Mining Venture from 40 per cent. to 85 per cent. These agreements were conditional on approval by Shareholders of the Company which was given at an Extraordinary General Meeting held on 10 April, 1997. Details of these agreements are set out in note 23 to the financial statements on pages 39 to 41.

On 2 July, 1997 the Company announced that it had entered into further arrangements with Indochina to restructure the ownership of the Bakyrchik Mining Venture. These arrangements will, if approved by Shareholders of the Company, result in Indochina increasing its ownership in the Bakyrchik Mining Venture by 65 per cent. to 80 per cent. The consideration for the increase in ownership is approximately \$69 million. The Company will retain 20 per cent. ownership but cease to have management control over the Bakyrchik Mining Venture. The restructuring is subject to approval by Shareholders of the Company at an Extraordinary General Meeting to be held on 29 September, 1997.

Full details of the restructuring is set out in note 24 to the financial statements on pages 41 to 44.

Change of name

As set out above, if the Shareholders of the Company approve the restructuring at the Extraordinary General Meeting to be held on 29 September, 1997 the Company will cease to have management control over the Bakyrchik Mining Venture. The Company's current name of Bakyrchik Gold PLC would then be inappropriate. Therefore, subject to Shareholder approval of the restructuring, a resolution is to be proposed at the Extraordinary General Meeting to change the Company name to BKG Resources PLC.



Research and development

Metallurgical test work on Bakyrchik ores was conducted by Lurgi Metallurgie GmbH as part of detailed engineering studies prepared for the development of the Bakyrchik project. In addition, laboratory scale and micro pilot plant test work of a hydro-metallurgical approach to the recovery of gold from the Bakyrchik ores was conducted and construction of a test pilot plant at the mine begun.

Significant contracts

A subsidiary undertaking, Central Asian Mining Limited, is a party to a Joint Venture agreement dated 2 October, 1992 as amended which provides it with a 40 per cent. interest in the Bakyrchik Mining Venture. Central Asian Mining Limited and the Bakyrchik Mining Venture are parties to a Principle Agreement, also dated 2 October, 1992 with the Government of Kazakhstan which provides for the grant of mining rights for a period of 30 years.

As set out in "Restructuring of ownership of the Bakyrchik Mining Venture" above, Central Asian Mining Limited has entered into further agreements with the Government of Kazakhstan which substantially modify the agreements of 2 October, 1992. Details of these agreements are set out in note 23 to the financial statements on pages 39 to 41.

The Company has also entered into the following significant contracts subsequent to 31 March, 1997: (a) an agreement with Gerald Metals Inc. to provide a short-term financing package to the Group and (b) an agreement with Indochina Goldfields Ltd. to restructure ownership of the Bakyrchik Mining Venture. Details of these contracts are set out above in "Restructuring of ownership of the Bakyrchik Mining Venture" and in note 24 to the financial statements on pages 41 to 44.

Results and dividend

The loss for the year before and after taxation amounted to \$32,749,000. The board of directors do not recommend the payment of a dividend.

Share capital

A statement of changes in the share capital of the Company during the year ended 31 March, 1997 is shown in note 13 to the financial statements on page 35.

Directors

The following have served as directors since 1 April, 1996:

G L Toll	
R A Harris	(appointed 8 July, 1996)
N J Troncoso	(appointed 25 November, 1996)
R M Friedland	(resigned 8 May, 1997)
R E Flood	(appointed 25 November, 1996)
J Kotjo	(resigned 25 November, 1996)
J F McQuat	(appointed 25 November, 1996)
G J Wickham	(appointed 25 November, 1996)
N J Bridgen	(resigned 24 January, 1997)
K A Foo	(resigned 16 August, 1996)
W J Hussey	(resigned 15 May, 1996)



Directors' report

Continued

Directors' interests

The directors' beneficial interests in the shares and options over shares of the Company granted under the Company's Executive Share Option Schemes at 31 March, 1997 are set out in the report of the remuneration committee on pages 14 to 18.

There were no changes to the directors' beneficial interests in the shares and options over shares of the Company during the period 1 April, 1997 to 18 August, 1997.

No director had any interest in any other company in the Group. Mr R M Friedland, Mr G L Toll and Mr R E Flood each have a significant interest in the share capital of Indochina Goldfields Ltd. which has a 27.9 per cent. interest in the ordinary Share Capital of the Company. Subsequent to the approval of the Restructuring proposals at the Extraordinary General Meeting to be held on 29 September, 1997 Indochina Goldfields Ltd. will hold an 80 per cent. interest in the Bakyrchik Mining Venture.

Except as set out in note 25 to the financial statements on page 44 none of the directors had any interests in any material contract during the year relating to the business of the Group.

Substantial interests

At 18 August, 1997 the Company was aware of the following substantial interests in its shares:

	Ordinary shares %
Indochina Goldfields Ltd.	27.9
Funds managed by Roberson Stephens	7.7
Merrill Lynch Pierce Fenner & Smith Inc.	6.3
AGF Canadian Equity Fund	3.7

The directors are not aware of any other interests of 3 per cent. or more in the share capital of the Company.

Charitable donations and political payments

The Group made charitable donations of \$96,000 (1996: \$nil) during the year. The Group also donated road making equipment of \$2 million to the administration of the region where the Bakyrchik mine is situated. No payments to political parties were made by the Group during the year.

Corporate governance

Compliance with the Cadbury Code

Prior to 25 November, 1996 the Company had only two non-executive directors, Mr R M Friedland and Mr J Kotjo. Mr R M Friedland and Mr J Kotjo were appointed non-executive directors upon acquiring a significant shareholding and options in the Company. Mr R M Friedland is also a director of Indochina Goldfields Ltd. which holds approximately 28 per cent. of the issued share capital of the Company. The manner of their appointment and the reasons for it precluded the board of directors from considering them to be wholly independent as defined in the Cadbury guidelines. On 25 November, 1996 Dr J F McOuat and Mr G J Wickham were appointed as independent non-executive directors. The Company has thus only complied with paragraph 1.3 of the Cadbury guidelines since that date. Mr R E Flood, who was also appointed as a non-executive director on 25 November, 1996 is also a director of Indochina Goldfields Ltd.. Given that relationship, the board of directors do not consider Mr R E Flood to be wholly independent as defined in the Cadbury guidelines.



Non-executive directors are appointed through industry and other professional contacts and their appointment is a matter for the board of directors as a whole. This does not comply with the Cadbury guidelines which requires there to be formal procedures.

Mr R M Friedland, who resigned on 8 May, 1997 did not have a service contract with the Company and his appointment was for an indefinite period. Mr R E Flood, Dr J F McOuat and Mr G J Wickham were appointed for an indefinite term but their contracts provide for notice to be given of a reasonable duration as agreed between the Company and the director.

The Cadbury Committee's Code of Best Practice recommends there to be an audit committee comprising of at least three non-executive directors. Prior to 25 November, 1996 when Dr J F McOuat and Mr G J Wickham were appointed and Mr J Kotjo resigned, the committee comprised of Mr R M Friedland and Mr J Kotjo. Since the appointment of Dr J F McOuat and Mr G J Wickham as independent non-executive directors, the committee has comprised of these two directors and Mr R A Harris. The Company has not, therefore, complied with this recommendation.

There is no formal schedule for the board of directors of matters specifically reserved to it for decision. Additionally, there is no agreed procedure for directors in the furtherance of their duties to take independent professional advice. The Company has not, therefore, complied with these two recommendations of the Cadbury guidelines.

In all respects, other than those detailed above and that below regarding the audit committee, the Company has complied with the provisions of the Cadbury Code of Best Practice.

Internal controls

The board of directors has overall responsibility for the system of internal financial controls of the Group. The effectiveness of the Group's system of internal financial controls has been reviewed and reported on to the board of directors by management. It has not been possible for the present audit committee to report formally on such matters to the present board of directors.

The system of internal financial controls has been established with the intention that the Group's assets are safeguarded against material loss, all transactions are properly authorised and recorded and that the Group's financial position is fairly reported. Any system of internal control can, however, only provide reasonable, but not absolute, assurance against material misstatement and loss.

The main foundation of the system of internal controls is through clearly defined and documented delegations of authority from the board of directors and regular reporting of the Group's financial position. The present audit committee, has not been able in the year under review, to monitor the system of internal financial controls or review on behalf of the board of directors, the Group's accounting and financial reporting practices, its internal controls and Group compliance with policies, regulation and law. Consequently, this does not comply with the Cadbury guidelines which require the audit committee to perform such a role.

In light of the rapidly changing circumstances affecting the Company during the year under review, the Group has prepared several detailed budgets for the various projects under consideration. These budgets have been submitted to the board of directors as appropriate.



Directors' report

Continued

The Group has clearly defined levels of authority required for capital and operating expenditure. There are internal procedures for procurement and entering into contracts. The Group does not consider that there are any external procurement procedures relevant to its business. The best possible payment terms are negotiated and agreed in advance with its principal suppliers in line with best commercial practice. The Group has limited alternatives for the procurement of certain consumables and equipment. This results, on occasions, in difficulties in conducting a competitive tender process. The Group's insurance programme is designed to safeguard those assets critical to the business.

The majority of the Group's activities are carried out in Kazakhstan, an emerging economy with different business practices to the developed world. Nevertheless, the board of directors has implemented a system of internal controls to a level, considered appropriate, to its business. This involves both adopting western business practices whenever possible and the employment of expatriate staff. The system of internal control in Kazakhstan is monitored by regular reporting and visits by head office staff.

Remuneration committee

A remuneration committee exists for determining the remuneration and benefits for executive directors. The report of the remuneration committee is on pages 14 to 18.

Going concern

As stated in the basis of preparation of the financial statements, the financial statements are prepared on a going concern basis. As described in the basis of preparation of the financial statements, the Group has sufficient funds to enable it to continue business until the Extraordinary General Meeting to be held on 29 September, 1997. Should resolution 1 proposed at the Extraordinary General meeting be approved by Shareholders, the Company will no longer be required to continue funding the initial development of the Bakyrchik Mining Venture. The Company will then limit its operations to much reduced geological investigations in Kazakhstan and overheads in London. The directors believe the Company will have sufficient funds to continue this program until the end of 1998. Additional funds will need to be obtained by the end of 1999 in order to enable the Group to continue in operation. If resolution 1 proposed at the Extraordinary General Meeting to be held on 29 September, 1997 is not approved by Shareholders with the result that the restructuring does not proceed, then amongst other consequences, the loan from Gerald Metals Inc. would become immediately repayable and in the absence of any alternative financing arrangements, the Company would be insolvent and have to cease trading immediately.

Auditors' review of Cadbury compliance

The auditors, KPMG Audit Plc, have confirmed that in their opinion: with respect to the directors' statements on internal controls on pages 11 and 12 (other than statements going beyond internal financial controls which are outside the scope of their report), and going concern on page 12, the directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' statement on pages 10 and 11 appropriately reflects the Company's compliance with the other paragraphs of the Cadbury Code of Best Practice specified by the Listing Rules for their review. They have carried out their review in accordance with the relevant guidance issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal control or corporate governance procedures, or on the ability of the Group to continue in operational existence.



Annual General Meeting

A separate notice of the Annual General Meeting to be held on 29 September, 1997 is enclosed with these financial statements. At the Annual General Meeting ordinary resolutions will be proposed to grant the directors authority to allot shares. In addition, a special resolution will be proposed to permit the disapplication of statutory pre-emption rights, enabling shares to be allotted pursuant to a rights issue or open offer on normal terms, pursuant to share option schemes of the Company and also enabling limited issues of shares for cash.

Extraordinary General Meeting

As stated above in "Restructuring of ownership of the Bakyrchik Mining Venture" an Extraordinary General Meeting is to be held on 29 September, 1997 immediately following the Annual General Meeting. A Circular to Shareholders dated 5 September, 1997 accompanies these financial statements which details the Restructuring and includes the notice of the Extraordinary General Meeting.

Auditors

KPMG Audit Plc, Chartered Accountants and Registered Auditor, of 8 Salisbury Square, London EC4Y 8BB, were appointed auditors to the Company at the Company's Annual General Meeting on 11 October, 1996 following the resignation of KPMG, Chartered Accountants and Registered Auditors. In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

5 September, 1997

By order of the Board
Keith M H Donald
Secretary

Keith M. H. Donald.



Report of the remuneration committee

Composition

A remuneration committee of the board of directors of Bakyrchik Gold PLC has operated since the public flotation of the company. Its current members are Mr G L Toll (Chairman), Dr J F McOuat (non-executive director) and Mr G J Wickham (non-executive director).

Compliance

The agreed terms of reference of the Company's remuneration committee have been established to comply, wherever possible, with the provisions of the Code of Best Practice ("the Code") issued by the Study Group on Directors Remuneration ("the Greenbury Committee"). The constitution and operation of the committee comply with the principles now incorporated in Section A of the best practice provisions derived from the Code, as amended by the Stock Exchange Listing Rules, with the following exceptions:

- Until the appointment of Dr J F McOuat and Mr G J Wickham, the committee comprised of Mr R M Friedland and Mr J Kotjo. Mr R M Friedland and Mr J Kotjo were not considered to be wholly independent non-executive directors as explained in the corporate governance section of the directors' report.
- Since the appointment of Dr J F McOuat and Mr G J Wickham as independent non-executive directors, the committee comprised of these two directors and Mr G L Toll. The committee did not therefore consist exclusively of non-executive directors.

The membership of the remuneration committee will be changed to reflect the code upon the appointment of further non-executive directors.

The committee also confirms that full consideration has been given to the best practice provisions set out in Section B of the best practice provisions, annexed to the Listing Rules, in determining its remuneration policy. The report of the auditors on the financial statements set out on page 20 confirms that the scope of their report covers the disclosures contained in this report that are specified for audit by the London Stock Exchange.

Remuneration policy for executive directors

The Bakyrchik Gold PLC remuneration policy is to ensure the total remuneration given to executive directors is sufficient to attract, retain and motivate individuals of the required calibre.

The remuneration committee is responsible for determining executive directors' remuneration which is reviewed annually. Remuneration for full time directors includes annual salary, health benefits, provision of private accommodation where appropriate, provision of company car or payment in lieu, contributions to individual personal pension plans and participation in the two Company Executive Share Option Schemes. Remuneration of the part-time executive director consists of an annual salary, provision of private accommodation, payment in lieu of a motor car and participation in the two Company Executive Share Option Schemes.

The contracts of service for executive directors provides for the payment of an annual bonus. In light of the Company's financial position, no bonus payments have been either proposed or made during the year ended 31 March, 1997. If circumstances are such that the payment of bonuses became appropriate, the level of bonus and the performance targets which must be met before any bonus is payable would be determined by the remuneration committee at that time.



The individual components of total remuneration for executive directors are as follows:

1 *Basic salary*

Basic salary for each director is determined by the performance of the individual and rates of salary for similar positions adopted by other companies in similar industries of comparable size, geographical spread and complexity. Due regard is also given to the hardship imposed upon those executive directors who are required to spend significant amounts of their time in Kazakhstan.

2 *Share options*

Share options are granted to executive directors to align their interests more closely with those of the shareholders over the longer term.

3 *Pension contributions*

Contributions are made to the individual personal pension plans of certain full time directors. The level of contributions is commensurate with their basic salary.

Remuneration of non-executive directors

The remuneration of non-executive directors is determined by the board of directors. Non-executive directors' fees are set in accordance to level of experience and time expected to be spent on Company business. Non-executive directors who perform duties in excess of those anticipated are compensated at the rates set out in their contract of service. Mr R M Friedland received no remuneration as he represented his interests as an indirect shareholder in the Company. However, the Company contracted with companies controlled by Mr R M Friedland to bear costs incurred by him in the pursuance of his duties. These arrangements are set out in note 25 to the financial statements on page 44.

External appointments for executive directors

With the specific approval of the board of directors, executive directors may accept external appointments as executive or non-executive directors of other companies and retain any related fees.

Company policy on contracts of service

The executive directors have contracts which, after an initial period which is completed, have notice periods of one year. The remuneration committee considers this notice period to be in line with the market.

Non-executive directors (other than Mr R M Friedland and Mr J Kotjo, both of whom have resigned) have contracts of service. These appoint the director for an indefinite term but provide for notice to be of a reasonable duration as agreed between the Company and the director.

Mr R M Friedland and Mr J Kotjo did not have service contracts and were appointed for an indefinite period.



Report of the remuneration committee

Continued

Directors' remuneration

The remuneration of the directors for the year ended 31 March, 1997 was as follows:

	1997			1996		1997	1996
	Salaries and fees £000	Benefits £000	Compensation for loss of office £000	Total excluding pensions £000	Total excluding pensions £000	Pension contributions £000	Pension contributions £000
<i>Executive directors</i>							
G L Toll*	74	27	—	101	21	—	—
R A Harris**	196	94	—	290	—	—	—
N J Troncoso**	32	—	—	32	—	—	—
K A Foot†	53	11	25	89	196	4	12
N J Bridgert	75	11	86	172	88	7	8
W J Hussey†	10	5	—	15	127	—	—
	<u>440</u>	<u>148</u>	<u>111</u>	<u>699</u>	<u>432</u>	<u>11</u>	<u>20</u>
<i>Non-executive directors</i>							
R M Friedland	—	—	—	—	—	—	—
R E Flood**	7	—	—	7	—	—	—
J Kotjot	—	—	—	—	—	—	—
J F McOuat**	9	—	—	9	—	—	—
G J Wickham**	19	—	—	19	—	—	—
	<u>475</u>	<u>148</u>	<u>111</u>	<u>734</u>	<u>432</u>	<u>11</u>	<u>20</u>

* Part time director throughout the year.

** Appointed during the year.

† Resigned during the year.

Benefits incorporate all assessable benefits arising from employment by the Company and mainly arise from the provision of company accommodation and vehicles.

Mr K A Foo's compensation also included £619,449 being the profit (computed by reference to market value of the Ordinary Shares on the date of exercise) on exercise of 338,497 options on Ordinary shares granted at £1.18p (after adjustment) per share under an Executive Share Option Scheme. These were exercisable under the rules of the Scheme following his resignation as Chief Executive of the Company. Mr W J Hussey's compensation also included £389,937 being the profit (computed by reference to market value of the Ordinary Shares on the date of exercise) on exercise of 158,511 options on Ordinary Shares granted at £1.18p (after adjustment) per share under an Executive Share Option Scheme. These were exercisable under the rules of the Scheme following his resignation as a director of the Company.

The salaries and fees for Mr R A Harris include a joining bonus of £61,353 and his benefits include £50,000 incurred due to his relocation to the United Kingdom.

The amounts for pensions are contributions paid by the Company to individual directors' personal pension plans.



Directors' shareholdings

	31 March, 1997	31 March, 1996*
G L Toll	—	—
R A Harris	—	—
N J Troncoso	—	—
R M Friedland	—	1,822,500
R E Flood	5,000	5,000
J F McOuat	—	—
G J Wickham	—	—

*or date of appointment if later.

Directors' share options

The following options have been granted to current and former directors under the rules of the Company's Executive Share Option Schemes:

	1 April, 1996	Granted	Lapsed	Exercised 31 March, 1997	Exercise	Market price	Date from	Expiry	
		during	during	during	price	on date of	which	date	
		the year	the year	the year		exercise	exercisable		
					£	£			
G L Toll	200,000	—	—	—	200,000	3.20	—	10/1/97	9/1/2003
R A Harris	—	300,000	—	—	300,000	2.15	—	21/1/98	20/1/2004
N J Troncoso	—	50,000	—	—	50,000	3.11	—	9/8/97	8/8/2003
	—	70,000	—	—	70,000	2.15	—	21/1/98	20/1/2004
N J Bridgen	126,936	—	—	—	126,936	1.18	—	9/8/96	*
	—	80,000	—	—	80,000	2.15	—	21/1/97	*
K A Foo	135,400	—	—	(135,400)	—	1.18	3.01		
	203,097	—	—	(203,097)	—	1.18	3.01		
	61,503	—	(61,503)	—	—	3.20	—		
W J Hussey	203,098	—	—	(158,511)	44,587	1.18	3.64	9/8/96	**
	930,034	500,000	(61,503)	(497,008)	871,523				

Mr K A Foo and Mr W J Hussey exercised their share options during the year following their resignation as directors of the Company.

*Under the terms of Mr N J Bridgen's resignation, the options outstanding at 31 March, 1997 can be exercised at any date up to the first anniversary of his resignation.

**Under the terms of Mr W J Hussey's resignation, the options outstanding at 31 March, 1997 could be exercised at any date up to the first anniversary of his resignation. These options lapsed on 15 May, 1997.



Report of the remuneration committee

Continued

The high and low values of Bakyrchik Gold PLC share price during the year ended 31 March, 1997 were £5.98p and £1.74p respectively and the mid market share price at 31 March, 1997 was £1.88p.

Companies Act disclosures

The following additional information is required to satisfy disclosure requirements under the Companies Act 1985:

	1997 £000	1996 £000
Non-executive directors:		
Fees	<u>35</u>	<u>70</u>
Executive directors and chairman:		
Salary and fees	440	463
Compensation for loss of office	141	85
Bonuses	—	—
Profit related pay	—	—
Benefits in kind	148	30
Pension contributions	<u>11</u>	<u>20</u>
	<u>740</u>	<u>598</u>

Compensation for loss of office for year ended 31 March, 1997 included £30,000 in respect of taxable benefits of a director who resigned in 1996.



Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.



Report of the auditors to the members of Bakyrchik Gold PLC

We have audited the financial statements on pages 21 to 44. We have also examined the amounts disclosed relating to emoluments, share options and long term incentive scheme interests of the directors which form part of the report of the remuneration committee on pages 14 to 18.

Respective responsibilities of directors and auditors

As described on page 19 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosure in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the basis of preparation section of the statement of the accounting policies concerning the fundamental uncertainty as to the continuation and adequacy of the Group's funding. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March, 1997 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

5 September, 1997



Consolidated profit and loss account

for the year ended 31 March, 1997

	Note	1997 \$000	1996 \$000
Turnover	1	916	1,698
Production costs		(6,440)	(14,995)
		(5,524)	(13,297)
Other operating costs	2	(2,562)	(31,154)
Administrative expenses	3	(24,674)	(9,260)
Operating loss	3	(32,760)	(53,711)
Interest receivable less payable	4	11	834
Loss from continuing operations before and after taxation	5, 15, 16	(32,749)	(52,877)
Loss per ordinary share (US dollars)	6	(0.93)	(1.93)

There were no recognised gains or losses other than those dealt with above.



Consolidated balance sheet

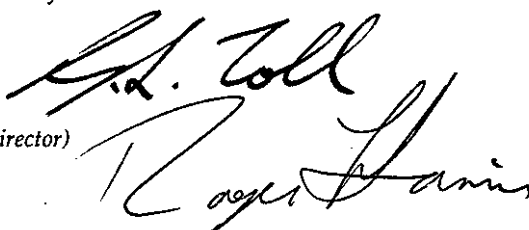
as at 31 March, 1997

	Note	\$000	1997 \$000	1996 \$000
Fixed assets				
Tangible assets	8		32,855	16,847
Current assets				
Stocks	10	2,789		2,137
Debtors	11	742		1,483
Cash at bank and in hand		2,582		16,003
		<u>6,113</u>		<u>19,623</u>
Creditors: amounts falling due within one year	12	<u>(14,732)</u>		<u>(7,552)</u>
Net current (liabilities)/assets			<u>(8,619)</u>	<u>12,071</u>
Net assets			<u>24,236</u>	<u>28,918</u>
Capital and reserves				
Called up share capital	13		6,277	4,878
Share premium account	14		96,524	69,856
Merger reserve	14		11,223	11,223
Profit and loss account	15		<u>(89,788)</u>	<u>(57,039)</u>
Equity shareholders' funds	16		<u>24,236</u>	<u>28,918</u>

These financial statements were approved by the board of directors on 5 September, 1997 and were signed on its behalf by:

Gordon Toll (Chairman)

Roger Harris (Managing Director)




Consolidated cash flow statement

for the year ended 31 March, 1997

	Note	\$000	1997 \$000	1996 \$000
Net cash outflow from operating activities	18		(28,472)	(16,903)
Return on investments and servicing of finance				
Interest received		181		834
Interest paid		—	181	834
			(28,291)	(16,069)
Capital expenditure				
Purchase of fixed assets			(17,962)	(8,365)
Cash outflow before use of liquid resources and financing			(46,253)	(24,434)
Financing				
Issue of shares	19	28,067		17,127
Increase in debt	19	4,765	32,832	17,127
Decrease in cash	20		(13,421)	(7,307)



Company balance sheet

as at 31 March, 1997

	Note	\$000	1997 \$000	1996 \$000
Fixed assets				
Tangible assets	8		149	132
Investments	9		29,799	73,809
			<u>29,948</u>	<u>73,941</u>
Current assets				
Debtors	11	497		6,437
Cash at bank and in hand		1,755		4,709
		<u>2,252</u>		<u>11,146</u>
Creditors: amounts falling due within one year	12	(7,562)		(2,724)
Net current (liabilities)/assets			(5,310)	8,422
Net assets			<u>24,638</u>	<u>82,363</u>
Capital and reserves				
Called up share capital	13		6,277	4,878
Share premium account	14		96,524	69,856
Merger reserve	14		11,223	11,223
Profit and loss account	15		(89,386)	(3,594)
Equity shareholders' funds			<u>24,638</u>	<u>82,363</u>

These financial statements were approved by
the board of directors on 5 September, 1997
and were signed on its behalf by:

Gordon Toll (Chairman)

Roger Harris (Managing Director)

G.A. Toll.
Roger Harris



Bakyrchik Gold PLC

Accounting policies

Basis of preparation

The financial statements are prepared on a going concern basis which the directors believe to be appropriate in the light of their assessment of the proposals to Shareholders issued in the circular dated 5 September, 1997 being approved and the Group's funding requirements in the foreseeable future.

The Company is currently required to fund the operations of the Bakyrchik Mining Venture. These have been financed since 1 April, 1996 by funds raised from Shareholders, a working capital loan from Indochina Goldfields Ltd. and a short term financing package from Gerald Metals, Inc. The terms of the loan financing are set out in notes 23 and 24 to the financial statements on pages 39 to 44. The directors believe that sufficient finance is available from these sources to continue operations until the Extraordinary General Meeting to be held on 29 September, 1997.

Should resolution 1 proposed at the Extraordinary General Meeting to be held on 29 September, 1997 and described below be approved by Shareholders, the Company will no longer be required to continue funding the initial development and operations of the Bakyrchik Mining Venture. The Company will then, *inter alia*, commence preliminary limited geological investigation of those parts of the licence area in Kazakhstan in which a new exploration joint venture established between the Company and Indochina Goldfields Ltd. has been granted an interest. As a result there will be cash outflows for the foreseeable future.

The arrangements under which the Company will dispose of a majority interest in the Bakyrchik Mining Venture provide that the Company will retain a minimum of \$4.5 million cash in hand following completion of the transaction. The costs to the Company of the transaction must be met from these funds. The directors believe that the balance of these funds available to the Company will be sufficient to fund overheads and to continue the program of limited geological investigations until the end of 1998 at which approximate time further funds will have to be raised. Any large scale exploration program or other capital project which may be undertaken would also require the Company to raise further funds.

If resolution 1 proposed at the Extraordinary General Meeting to be held on 29 September, 1997 is not approved by Shareholders with the result that the Restructuring does not proceed, then amongst other consequences, the loan from Gerald Metals Inc. would become immediately repayable and in the absence of any alternative financing arrangements, the Company would be insolvent and have to cease trading immediately.

The financial statements do not include any adjustments, particularly in respect of tangible fixed assets, stocks, investments or loans, that would result from the Company and the Group, or its principal subsidiary undertaking, ceasing to operate as a going concern.

Basis of group financial statements

The financial statements have been prepared in accordance with applicable accounting standards and consist of the consolidation of the financial statements of all subsidiary undertakings prepared on the historical cost basis. The results and net assets of the Bakyrchik Mining Venture have been consolidated on the grounds that Bakyrchik Gold PLC exercised dominant influence through majority board voting rights and a 75 per cent. interest in the net revenues of Bakyrchik Mining Venture prior to recoupment throughout the financial year ended 31 March, 1997. Subsequent to the 31 March, 1997 the Company has increased its interest in the Bakyrchik Mining Venture to 85 per cent. The Company has also entered into agreements, which if approved



Accounting policies

Continued

by Shareholders at the Extraordinary General Meeting to be held on 29 September, 1997 will result in the Company disposing of an 80 per cent. interest in the Bakyrchik Mining Venture. The effects of these transactions on subsequent financial statements of the Company are set out in note 24 to the financial statements on pages 41 to 44.

Currency translation

The functional currency of the Group is the United States dollar. For this reason, the Group financial statements are prepared in United States dollars. The financial statements of Bakyrchik Gold PLC are translated into United States dollars using the temporal method, whereby transactions are translated at the exchange rate on the day of the transaction. Exchange differences resulting from the revaluation of non-United States dollar monetary assets and liabilities are included in the profit and loss account.

Turnover

Turnover is recognised upon pouring of gold doré at estimated sales proceeds.

Recognition of income and expenditure

Prior to 1 June, 1995 certain operating expenditure (partially offset by limited gold sales) was capitalised as mining property during commissioning of the plant. Commercial production commenced on 1 June, 1995 and all income and expenditure has been included in the consolidated profit and loss account from that date.

Certain expenditures incurred after 1 June, 1995 not arising from the normal operation of the plant have been disclosed separately as other operating costs.

Exploration and development

During the initial exploration stage of projects, full provision is made in respect of the costs of exploration and development. Property acquisition costs and entry premiums paid to gain access to areas of interest are carried forward at cost where considered recoverable from resale or development. Expenditure on projects after they have reached a promising stage, including the costs of extended evaluation programmes to establish their commercial viability, is carried forward and transferred to mining properties if the project proceeds. If a project, or individually significant process facility, does not prove viable, all irrecoverable costs associated with it are expensed.

Mining property

Once a project is considered commercially viable, expenditure on that project other than on land and buildings and plant and equipment is capitalised as mining property. Such expenditure is capitalised until the start of commercial production of the project. From commencement of commercial production, the total mining property in respect of the project is amortised against profits.

Depreciation and amortisation

Depreciation rates for vehicles and other non-mining equipment is calculated on a straight line basis at 25 per cent. per annum. Depreciation of mining plant and equipment is calculated over their estimated useful lives on a straight line basis to nil residual value at rates between 10 per cent. and 25 per cent. per annum.



Amortisation of mining property is made using the unit-of-production method based on proven and probable reserves.

Stocks

Stocks are valued at the lower of cost and net realisable value. The cost for raw materials and stores includes purchase price and freight charges. The cost of partly processed and saleable products is generally the cost of production, including the appropriate proportion of depreciation and overheads.

Deferred tax

Deferred tax is provided using the liability method in respect of all timing differences to the extent that, in the opinion of the directors, they are expected to reverse in the foreseeable future.



Notes to the financial statements

for the year ended 31 March, 1997

1 Segmental reporting

The Group's main business during the year ended 31 March, 1997 was the development and operation of a gold mine in Kazakhstan. The Group also has an office in London, United Kingdom. Turnover arises solely from sale of gold in Kazakhstan. Net assets by geographical location are as follows:

	1997			1996		
	United Kingdom	Kazakhstan	Total	United Kingdom	Kazakhstan	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Fixed assets	149	32,706	32,855	132	16,715	16,847
Net current liabilities excluding cash	(7,055)	(4,146)	(11,201)	(1,097)	(2,835)	(3,932)
Cash	2,504	78	2,582	15,728	275	16,003
	<u>(4,402)</u>	<u>28,638</u>	<u>24,236</u>	<u>14,763</u>	<u>14,155</u>	<u>28,918</u>

2 Other operating costs

	1997	1996
	\$000	\$000
Commissioning costs incurred after start of commercial production	—	2,119
Provision for permanent impairment in the value of fixed assets (see below)	—	29,035
Exploration and evaluation	2,562	—
	<u>2,562</u>	<u>31,154</u>

During the year ended 31 March, 1996 the Group reviewed the technologies available for the commercial development of the Bakyrchik mine. The decision was taken to discontinue operation of the small scale Redox plant. The Redox technology will not be utilised for the next stage of development. In light of this, in accordance with the Group's accounting policies, the accumulated costs relating to the plant were expensed during the year ended 31 March, 1996.



3 Operating loss

Operating loss is stated after charging:

	1997	1996
	\$000	\$000
Auditors remuneration:		
audit	80	66
other services (excluding issue costs)	193	64
Depreciation	936	2,825
Provision for permanent impairment	—	29,035

Auditors' remuneration in 1996 of \$60,000 relating to their duties as reporting accountants for the Company's share placements during the financial year ended 31 March, 1996 was charged against the share premium account.

Administrative expenses for the year ended 31 March, 1997 were \$24,674,000 (1996: \$9,260,000). These costs included: (a) \$6.2 million in professional and other costs incurred in purchasing the Government of Kazakhstan's outstanding interest in the Bakyrchik Mining Venture; (b) \$1.1 million for provision of services by Ivanhoe Capital PTE Limited (1996: \$nil) as set out in note 25 on page 44 and; (c) a \$2 million donation as described in "Directors' report—Charitable and political payments" on page 10. Employment costs also increased by \$3.1 million to \$7.9 million in the year as set out in note 7 on page 30. The balance of the administrative expenses for 1997 of \$7.5 million was similar in nature to the previous year and the increase of \$3.0 million arose due to the generally increased level of activity of the Group.

4 Interest receivable less payable

	1997	1996
	\$000	\$000
Interest receivable and similar income	181	834
Interest payable and similar charges		
Loans repayable with five years	(170)	—
	11	834

5 Taxation

The Company has made a loss in the United Kingdom and no liability for United Kingdom taxation arises. The Group's principal overseas company has made losses as it is in start up phase and no other Group company has made profits liable to taxation.

6 Loss per ordinary share

The calculation of loss per ordinary share is based on the loss for the year of \$32,749,000 (1996: \$52,877,000). This loss is divided by the weighted average number of ordinary shares in issue during the year of 35,380,077 (1996: 27,336,188).



Notes to the financial statements

Continued

7 Directors and employees

The average number of employees (including directors) of the Group was as follows:

	1997	1996
	Number	Number
Operations	440	650
Administration	716	37
	<u>1,156</u>	<u>687</u>

The principal locations of employment were:

	Number	Number
United Kingdom	12	8
Kazakhstan	1,144	679
	<u>1,156</u>	<u>687</u>

Employment costs were as follows:

	\$000	\$000
Wages and salaries	6,657	4,198
Social security costs	1,188	528
Other pension costs	49	29
	<u>7,894</u>	<u>4,755</u>

The Bakyrchik Mining Venture formally assumed the assets of the Bakyrchik Mining Combine on 29 September, 1995. Following the transfer of assets, the former employees of the Bakyrchik Mining Combine were employed by the Bakyrchik Mining Venture. The former employees of the Bakyrchik Mining Combine have been included in the above employee numbers and costs from the date of asset transfer.

The Group does not currently operate any pension schemes. Contributions are made to personal pensions of certain directors and employees.

Directors' remuneration, including share option schemes, is set out in the report of the remuneration committee on pages 14 to 18, of which the paragraphs headed "Directors' remuneration", "Directors' share options" and "Companies Act disclosures" form part of these financial statements.



8 Tangible fixed assets

Group

	Mining properties and leases \$000	Land and buildings \$000	Plant and equipment \$000	Total \$000
Cost				
1 April, 1996	15,333	211	33,454	48,998
Reclassification	(1,947)	—	1,947	—
Additions	15,098	242	2,622	17,962
Disposals	—	—	(1,088)	(1,088)
31 March, 1997	28,484	453	36,935	65,872
Depreciation				
1 April, 1996	2,860	29	29,262	32,151
Reclassification	(2,860)	—	2,860	—
Charge for the year	—	186	750	936
Disposals	—	—	(70)	(70)
31 March, 1997	—	215	32,802	33,017
Net book value				
31 March, 1997	28,484	238	4,133	32,855
31 March, 1996	12,473	182	4,192	16,847

The amounts included under land and buildings are buildings held under short leases.



Notes to the financial statements

Continued

8 Tangible fixed assets

Company

Plant and equipment
\$000

Cost

1 April, 1996

235

Additions

147

Disposals

(137)

31 March, 1997

245

Depreciation

1 April, 1996

103

Charge for the year

58

Disposals

(65)

31 March, 1997

96

Net book value

31 March, 1997

149

31 March, 1996

132



9 Fixed asset investments

Company

	Shares in subsidiary undertakings \$000
Cost	
1 April, 1996	73,809
Additions	25,000
Provision (see below)	(69,010)
31 March, 1997	29,799

Subsidiary undertakings

Company and country of incorporation and operation	Class of shares held	Proportion of class held %	Bakyrchik Gold PLC interest %	Nature of Business
Bakyrchik Mining Venture (Kazakhstan)	N/A	40	40	Gold production in Kazakhstan
BKG Jersey Limited (Jersey)	Ordinary \$1	100	100	Finance company
Central Asian Mining Limited (British Virgin Islands)	Ordinary \$1	100	100	Holding company

All subsidiaries have been included in the consolidated financial statements. The basis of preparation of the Group financial statements is set out in accounting policies on page 25. The Group's interest in the Bakyrchik Mining Venture is held by Central Asian Mining Limited.

The Company has increased and subsequently decreased its interest in the Bakyrchik Mining Venture and Central Asian Mining Limited respectively subsequent to 31 March, 1997 as set out in note 23 on pages 39 to 41.

As set out in note 24 on pages 41 to 44, the Company is proposing to dispose of majority interests in its subsidiaries subsequent to 1 April, 1997. This will result in the disposal of assets (principally shares in subsidiary undertakings and intergroup debt receivable) valued at \$90.9 million in the balance sheet of the Company at 31 March, 1997. The proceeds from this disposal will be \$24.5 million (of which \$20 million will be used to repay the working capital loan from Indochina Goldfields Ltd.). The anticipated final loss will also include those amounts advanced by the Company to its subsidiary undertakings between 1 April, 1997 and the date of their disposal and is estimated at \$91 million. A provision of \$69,010,000 has been made during the year ended 31 March, 1997 in the Company's financial statements representing the directors assessment of the permanent diminution in the value of investments up to 31 March, 1997.



Notes to the financial statements

Continued

10 Stocks

Group	1997 \$000	1996 \$000
Consumable stores	2,704	1,895
Goods for resale	85	242
	<u>2,789</u>	<u>2,137</u>

11 Debtors

	1997		1996	
	Group \$000	Company \$000	Group \$000	Company \$000
Trade debtors	—	—	26	—
Amounts owed by subsidiary undertakings	—	—	—	6,326
Other debtors	128	100	167	91
Prepayments and accrued income	614	397	1,290	20
	<u>742</u>	<u>497</u>	<u>1,483</u>	<u>6,437</u>

All amounts are recoverable within one year.

12 Creditors: amounts falling due within one year

	1997		1996	
	Group \$000	Company \$000	Group \$000	Company \$000
Trade creditors	2,786	1,042	2,208	744
Amounts owed to Indochina Goldfields Ltd.	4,935	4,935	—	—
Amounts owed to subsidiary undertakings	—	—	—	1,514
Other creditors including taxation and social security	3,297	77	3,373	128
Accruals	3,714	1,508	1,971	338
	<u>14,732</u>	<u>7,562</u>	<u>7,552</u>	<u>2,724</u>

The amount owed to Indochina Goldfields Ltd. represents principal drawn down and accrued interest under the \$20 million secured working capital loan facility. The major terms of this facility are set out in note 23—"Increase in the Company's Interest in Bakyrchik Mining Venture—The Financing Agreement" on page 40.



13 Called up share capital

	Number	£000	\$000
<i>Authorised</i>			
Ordinary shares of £0.10 each	<u>60,000,000</u>	<u>6,000</u>	<u>—</u>
<i>Allotted, called up and fully paid</i>			
1 April, 1996	31,314,656	3,131	4,878
Options exercised by Indochina	4,770,000	477	739
Executive Share Option Schemes	497,008	50	79
Placement	<u>3,573,000</u>	<u>357</u>	<u>581</u>
31 March, 1997	<u>40,154,664</u>	<u>4,015</u>	<u>6,277</u>

On 12 August, 1996 4,770,000 Ordinary Shares were allotted to Indochina Goldfields Ltd. at £2.10 per share. This transaction allotted Ordinary Shares of nominal value £477,000 and raised a consideration of £10.0 million. The reason for the allotment was as set out in note 22 to the financial statements on pages 38 and 39 and to raise finance for the further development of the Bakyrchik mine. On 4 September and 18 September, 1996 158,511 and 338,497 Ordinary Shares respectively were allotted at £1.18p per share under the Company's Executive Share Option Schemes. The aggregate nominal value of the Ordinary Shares allotted was £49,700.80p and the consideration was £586,469.44p. On 21 February, 1997 the Company placed 3,573,000 Ordinary Shares at £2.00p per share with a number of institutions. The market price of the Company's Ordinary Shares on the day of placement was £2.06p. The aggregate nominal value of the Ordinary Shares allotted was £357,300 and a consideration was raised of £7.1 million. The reason for the allotment was to raise finance for the further development of the Bakyrchik mine.

At 31 March, 1997 the following options to subscribe for new Ordinary Shares in the Company were outstanding:

	Number of Shares	Price	Period during which options exercisable
Unapproved Executive Share Option Scheme	44,587	£1.18p	9/8/96— 8/8/2000
	200,000	£3.20p	10/1/99— 9/1/2003
	85,000	£3.44p	18/1/99—17/1/2003
	480,000	£2.15p	21/1/98—20/1/2004
	110,000	£3.11p	9/8/97— 8/8/2003
	38,000	£3.38p	11/8/99—10/8/2003
	20,000	£3.11p	29/4/99—28/4/2003
Approved Executive Share Option Scheme	126,936	£1.18p	9/8/96— 8/8/2003
	20,000	£3.11p	8/8/99— 7/8/2003
	<u>1,124,523</u>		



Notes to the financial statements

Continued

14 Share premium and reserves

Group and company

	Share premium account \$000	Merger reserve \$000
1 April, 1996	69,856	11,223
Shares issued	26,668	—
31 March, 1997	<u>96,524</u>	<u>11,223</u>

There were no material costs associated with the share issues of the Company during the year.

15 Profit and loss account

	Group \$000	Company \$000
1 April, 1996	(57,039)	(3,594)
Retained loss for the year	<u>(32,749)</u>	<u>(85,792)</u>
31 March, 1997	<u>(89,788)</u>	<u>(89,386)</u>

The Company's loss for the year was \$85,792,000 (1996: \$1,776,000). As permitted by Section 230 of the Companies Act 1985, no profit and loss account for Bakyrchik Gold PLC is included in these financial statements. The loss of the Company of \$85,792,000 included a provision of \$73,648,000 resulting from the permanent diminution in value of investments and the anticipated disposal of subsidiary undertakings as set out in note 9 on page 33.

16 Reconciliation of movements in equity shareholders' funds

	1997		1996	
	Group \$000	Company \$000	Group \$000	Company \$000
Loss for the year	(32,749)	(85,792)	(52,877)	(1,776)
Issue of shares	<u>28,067</u>	<u>28,067</u>	<u>17,127</u>	<u>17,127</u>
Net (reduction)/addition to shareholders' funds	(4,682)	(57,725)	(35,750)	15,351
Shareholders' funds—1 April	<u>28,918</u>	<u>82,363</u>	<u>64,668</u>	<u>67,012</u>
Shareholders' funds—31 March	<u>24,236</u>	<u>24,638</u>	<u>28,918</u>	<u>82,363</u>



17 Commitments

Capital expenditure authorised by the appropriate boards and outstanding for which no provision has been made:

	1997		1996	
	Group \$000	Company \$000	Group \$000	Company \$000
Contracted	4,000	—	198	—

The Bakyrchik Mining Venture has an annual commitment of \$2 million for support of the local area.

18 Reconciliation of operating loss to net cash outflow from operating activities

	1997 \$000	1996 \$000
Operating loss	(32,760)	(53,711)
Loss on disposal of fixed assets	1,018	—
Depreciation charge	936	2,825
Provision for permanent impairment	—	29,035
(Increase)/decrease in stock	(652)	776
Decrease/(increase) in debtors	741	(1,215)
Increase in creditors	2,245	5,387
Net cash outflow from operating activities	(28,472)	(16,903)

19 Financing

	1997 \$000	1996 \$000
Issue of ordinary share capital	20,697	17,788
Placing of ordinary shares	7,370	—
Issue costs of share capital	—	(661)
	28,067	17,127
Debt due within a year:		
Increase in loan from Indochina Goldfields Ltd.	4,765	—
Net cash inflow from financing	32,832	17,127



Notes to the financial statements

Continued

20 Analysis of cash/(net debt)

	1997 \$000	1996 \$000
Reconciliation of net cash flow to movement in cash/(net debt)		
Decrease in cash	(13,421)	(7,307)
Cash inflow from increase in debt	(4,765)	—
Increase in net debt/decrease in cash	(18,186)	(7,307)
1 April	16,003	23,310
31 March	(2,183)	16,003
Analysis of cash/(net debt)		
	1 April 1996 \$000	Cash flow \$000
Cash at bank	16,003	(13,421)
Debt due within 1 year	—	(4,765)
	16,003	(18,186)
		31 March 1997 \$000
		2,582
		(4,765)
		(2,183)

21 Exchange rates

Monetary assets and liabilities denominated in sterling at 31 March, 1997 were translated into US dollars at an exchange rate of US\$1.6299 to £1.00 (1996: US \$1.5250 to £1.00)

22 Acquisition of approximately 28 per cent. of the Company's share capital

It was announced on 6 August, 1996 that Indochina Goldfields Ltd. (a company incorporated under the laws of the Yukon Territory and listed on the Toronto Stock Exchange) ("Indochina") had entered into conditional agreements and understandings with Mr R M Friedland, Mr J Kotjo and two other major shareholders of the Company at that date to acquire 4,837,000 shares and 4,770,000 options over shares of the Company. The consideration for the shares and options over shares was to be satisfied by the issuing of shares in Indochina to the vendors.

The agreements reached with the directors and major shareholders were for Indochina to acquire the shares and options for Ordinary shares as follows:

- 1,822,000 shares from Mr J Kotjo and 1,192,500 from one other major shareholder for £3.30 per share.
- 1,192,000 options over shares from Mr J Kotjo and 2,385,500 options over shares from two other major shareholders for £1.00 per option.
- 1,822,000 shares at prices between approximately £1.50 and £2.00 and 1,192,500 options over shares for a nominal amount from Mr R M Friedland.



22 Acquisition of approximately 28 per cent. of the Company's share capital *(Continued)*

Subsequent to the announcement on 6 August, 1996 Indochina completed the above transaction and exercised the options over 4,770,000 Ordinary shares of the Company. This resulted in Indochina acquiring just under 27 per cent. of the issued share capital of the Company as increased by the issue of the options.

On 20 February, 1997 the Company placed for cash 3,573,000 new Ordinary shares of which Indochina subscribed for 1,604,377. Subsequent to this cash placing, Indochina had a holding at 31 March, 1997 of 11,211,377 Ordinary shares. This represented approximately 27.9 per cent. of the share capital of the Company as increased by the new Ordinary shares.

23 Increase in the Company's interest in the Bakyrchik Mining Venture

On 13 December, 1996 the Company announced that it had entered into an acquisition agreement with the Government of Kazakhstan ("the Acquisition Agreement") and a financing agreement with Indochina Goldfields Ltd. ("Indochina") ("the Financing Agreement"). These agreements were conditional on approval by Shareholders of the Company which was given at an Extraordinary General Meeting held on 10 April, 1997.

The Acquisition Agreement

The Acquisition Agreement was entered into between Central Asian Mining Limited ("CAML"), the Bakyrchik Mining Venture ("BMV") and the State Committee on Privatisation acting on behalf of the Government of the Republic of Kazakhstan ("the Government"). The Acquisition Agreement provided for the following:

- (i) the purchase by CAML of the Government's 60 per cent. interest in the BMV.
- (ii) The purchase by the BMV of all property, buildings and other assets related to, or connected with, the operation of the Bakyrchik Mine which were previously leased by the Government to the BMV.

The significant terms of the Acquisition Agreement are as follows:

- (a) The aggregate price is \$65 million (including a \$5 million bonus) of which \$20 million was paid by Indochina on 13 December, 1996 and \$15 million was paid on 1 July, 1997 following execution of the sub-soil use contract. The balance is payable in two further instalments of \$15 million each, payable at approximately 12 and 16 months after completion.



Notes to the financial statements

Continued

23 Increase in the Company's interest in the Bakyrchik Mining Venture (Continued)

- (b) The Company will procure funding for the BMV of not less than \$150 million to be applied over the ten year period following 29 September, 1995.
- (c) BMV has agreed to continue to pay \$2 million annually to the regional government (including \$1 million for the social development of the town of Auezov), to help to pay the cost of social services provided by the regional authorities.

The Financing Agreement

The Financing Agreement was entered into between CAML, BMV and Indochina. The significant terms of the agreement (including an amendment on 13 March, 1997) are as follows:

- (i) Indochina have agreed to provide the Company with a \$20 million secured working capital loan facility. In addition, under the facility, the Company will be entitled to draw down a further amount representing 15 per cent. of project expenses from 1 January until Indochina acquires its 15 per cent. interest in BMV.
- (ii) The loan is repayable on or before 31 December, 1997 or from the proceeds of any earlier rights issue of the Company.
- (iii) Monthly interest is payable on the aggregate amount of the Loan outstanding at the rate of 8.5 per cent. per annum.
- (iv) CAML will transfer to Indochina 15 per cent. of the acquired interest in BMV in consideration of the payment of \$20 million by Indochina to the Government on 13 December, 1996.
- (v) the Company and Indochina will enter into a shareholder's agreement, the principle terms of which will be as follows:
 - the Company and Indochina shall contribute a *pro rata* share of the operating and capital costs of BMV in accordance with their respective interests in BMV.
 - Indochina shall irrevocably waive all pre-emptive rights to acquire the whole or any part of the Company's interest in BMV if the Company were to seek to sell such interest, such pre-emptive rights arising under the Kazakhstani law on business partnerships.



23 Increase in the Company's interest in the Bakyrchik Mining Venture (Continued)

Fall back arrangements

The Acquisition Agreement and the Financing Agreement were conditional on approval by Shareholders of the Company which was given at an Extraordinary General Meeting on 10 April, 1997. Fall back agreements were also put in place between Indochina and the Company should Shareholders' approval not be given. These provided for the following:

- The Company would retain its existing 40 per cent interest in BMV and CAML would acquire the 60 per cent. interest on behalf of Indochina.
- The working capital loan facility would be restricted to \$5 million and be unsecured.

Effect of the agreements on the financial statements of Bakyrchik Gold PLC

Subsequent to the acquisition of an increased interest in the BMV, it was announced that the Company would dispose of a majority interest in the BMV to Indochina as described in note 24 on pages 41 to 44. The combined effects of these two transactions on the financial statements of the Company is described in note 24 on pages 41 to 44.

24 Restructuring of the Group and associated financing arrangements announced subsequent to 31 March, 1997

It was announced on 2 July, 1997 that the Company had negotiated a short-term financing package and a proposed restructuring of ownership of Central Asian Mining Limited ("CAML") the subsidiary undertaking which owns its interest in the Bakyrchik Mining Venture ("BMV"). The restructuring proposals are subject to approval by Shareholders of the Company at the Extraordinary General Meeting to be held on 29 September, 1997.

The main details of the arrangements are as follows:

Short-term financing

- Gerald Metals, Inc. ("Gerald") an international metals merchant and financier to the mining industry, has agreed to provide up to \$45 million of short-term funding to CAML.
- The loan is guaranteed by Indochina Goldfields Ltd. ("Indochina") and the Company. The Company guarantee is secured on the CAML shares not already pledged to Indochina. No fee has been paid, or security granted, to Indochina in return for giving the guarantee.
- \$15 million was drawn down to fund the second consideration payment to the Government of Kazakhstan ("Government") which was made on 1 July, 1997 and is repayable on or around 15 August, 1997 (or such later date as may be mutually agreed between the parties) following which the Company guarantee and the charge over the CAML shares will be released.



Notes to the financial statements

Continued

24 Restructuring of the Group and associated financing arrangements announced subsequent to 31 March, 1997 (Continued)

- A further \$675,000 was drawn down and paid to Gerald in settlement of their arrangement fee.
- A further \$11 million (plus any additional amounts as may be determined by mutual agreement between the Company and Indochina), all of which had been drawn down at 5 September, 1997 may be drawn down prior to closing of the restructuring described below.
- The balance of the \$45 million facility is available after closing of the restructuring and will be repayable before 31 October, 1997.
- Gerald will receive interest at LIBOR plus 1.5 per cent. and have received an arrangement fee of 1.5 per cent. and a 3 year option to subscribe for 300,000 Company shares at £0.61, the closing price of the Company shares on 2 July, 1997 the first day of trading following the lifting of the suspension of the Company's shares.
- Gerald has been retained (on an exclusive right for three months) to arrange project financing for the next stage of development of the project.

Proposed restructuring

- At 31 March, 1997 the BMV was indirectly owned 100 per cent. by the Company via CAML, a wholly owned subsidiary. Following the Extraordinary General Meeting of the Company held on 10 April, 1997 which approved the acquisition agreement (see note 23 on pages 39 to 41) CAML transferred 15 per cent. of its ownership of the BMV to Indochina. After the proposed restructuring, CAML will regain ownership of 100 per cent. of the BMV and will be owned 20 per cent. by the Company and 80 per cent. by Indochina. The Company will have a right to increase its ownership by 10 per cent. up to a total of 30 per cent. The Company will also transfer 80 per cent. of BKG Jersey Limited to Indochina.
- Indochina will acquire its further indirect interest of 65 per cent. of the BMV for \$65 million as follows:
 - (i) funding repayment of the first \$15 million of the Gerald loan (and thereby releasing the Company guarantee).
 - (ii) funding (on a non-recourse basis) the obligations to pay the remaining \$30 million of the acquisition payments to the Government.
 - (iii) purchasing 80 per cent. of the issued share capital of BKG Jersey Limited for \$20 million.
- In addition, Indochina shall make a further payment to the Company of \$4.5 million comprising: (a) payment in respect of Indochina's 15 per cent. of project expenses from 10 April, 1997 to completion of the transaction, which is estimated to be \$2 million; and (b) a further amount being the balance of such \$4.5 million representing additional consideration for the purchase of 80 per cent. of the issued share capital of BKG Jersey Limited.
- Indochina will assume management control of the BMV although the Company will be entitled to appoint at least one director of CAML and of the BMV.



24 Restructuring of the Group and associated financing arrangements announced subsequent to 31 March, 1997 (Continued)

- The first \$5 million of participants funding for the next stage of development of the project ("Phase 1") will be provided by Indochina on a non-recourse basis. Thereafter Indochina will fund, in addition to its own share, by way of limited recourse loan, the Company's 20 per cent. share of the participants obligations to fund Phase 1. This loan will only be repayable from the Company's entitlement to the proceeds from the BMV attributable to the 20 per cent. interest.
- The Company will be entitled to buy back up to 10 per cent. of CAML (to take its holding up to a maximum of 30 per cent.) at a price of \$1 million per percentage point (representing 100 per cent. of Indochina's acquisition cost) until a commitment letter has been obtained for the project finance or at \$2 million per percentage point thereafter, exercisable for 30 days or until 31 December, 1997, whichever is the later.
- A separate exploration joint venture has been established between the Company and Indochina relating to exploration acreage currently forming part of the licence area. The Company will hold an 85 per cent. interest in, and will have management control over, the exploration joint venture with the remaining 15 per cent. interest held by Indochina. Indochina will have the right to increase its stake up to 49 per cent. (at 250 per cent. of cost) in any specific project within the exploration areas following a decision to proceed to a feasibility study in respect of such project.

Effect on the financial statements of the increase in the Company's interest in the BMV and the proposed subsequent disposal

As described in note 23 on pages 39 to 41, the Shareholders of the Company approved an increase in its interest in the BMV on 10 April, 1997. As described above, it is proposed that the Company will dispose of 80 per cent. of its interest to Indochina. The major effect of these two transactions on the financial statements of the Company will be as follows:

- Following approval of the disposal, the Company will no longer have any subsidiary undertakings. It will not therefore prepare consolidated financial statements.
- The Company's only material assets (other than working capital) will be its minority interests in CAML and BKG Jersey Limited. These will be valued as follows:
 - The investment in CAML at 31 March, 1997 was carried at historic cost of approximately \$12.5 million in the unconsolidated balance sheet of the Company. The disposal of 80 per cent. of CAML will be achieved by CAML issuing new shares to Indochina. The directors believe that the realisable value of the remaining 20 per cent. investment in CAML is greater than historic cost due to the removal of obligations to fund the project. There will therefore be no change made to the carrying value of the investment.
 - The Company will retain a 20 per cent. interest in the share capital of BKG Jersey Limited which the directors believe should be valued at \$ nil. The disposal of 80 per cent. of BKG Jersey Limited will thus result in a loss equal to the entire carrying value of the investment less the \$20 million proceeds (plus additional consideration of approximately \$2.5 million as described above) of its sale.



Notes to the financial statements

Continued

24 Restructuring of the Group and associated financing arrangements announced subsequent to 31 March, 1997 (Continued)

- The transaction will result in a loss arising from the disposal of BKG Jersey Limited and provision against intercompany debt due from the BMV. This loss is estimated at \$91 million and a provision has been made in the financial statements of the Company in the year ended 31 March, 1997 of \$69 million as set out in note 9 on page 33.

25 Provision of services by Ivanhoe Capital PTE Limited

R M Friedland, a director of the Company until 8 May, 1997 and of Central Asian Mining Limited until 8 May, 1997 is a director and controlling shareholder of Ivanhoe Capital PTE Limited, a Company registered under the laws of Singapore ('Ivanhoe'). Ivanhoe Capital Aviation L.L.C. and Ivanhoe Capital Aviation Limited are subsidiaries of Ivanhoe. G L Toll is a director of Ivanhoe and R E Rochette, a director of Central Asian Mining Limited, is also an officer of Ivanhoe.

On 24 May, 1996 the Company entered into an agreement with Ivanhoe Capital Aviation L.L.C., a company registered in the State of Delaware, the United States of America. The agreement relates to the lease to the Company of an aircraft and all associated parts, accessories and furnishings. The use of this aircraft to be at such times and for such terms or periods of time as the Company wishes, subject to the availability of the aircraft. On the same date the Company entered into an agreement with Ivanhoe Capital Aviation Limited, a company registered in the British Virgin Islands. The agreement relates to the provision of services and costs thereon necessary to operate the aforementioned aircraft, including but not limited to the crew, fuel, landing charges and associated expenses. Amounts invoiced in respect of these agreements in the financial year ended 31 March, 1997 were \$363,516 and \$393,809 respectively (1996: \$nil). At 31 March, 1997 amounts outstanding of \$38,880 and \$42,120 (1996: \$nil) were due by the Company to Ivanhoe Capital Aviation L.L.C. and Ivanhoe Capital Aviation Limited respectively in respect of the agreements.

On 30 June, 1996 the Company entered into an agreement with Ivanhoe. The agreement relates to the provision of by Ivanhoe to the Company of office space, furnishings, equipment, communications facilities and mining and technical and geological services in Singapore. The Company will pay the costs of salary and overheads relating to the provision of the said services, and an administrative fee of 5 per cent. Of such costs, amounts invoiced in the financial year ended 31 March, 1997 were \$337,169 (1996: \$nil). At 31 March, 1997 an amount outstanding of \$66,400 (1996: \$nil) was due by the Company to Ivanhoe in respect of the agreement.

The board of directors has determined that the above agreements will be terminated upon completion of the restructuring.



BAKYRCHIK GOLD PLC

(Registered in England — No. 2811366)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held on Monday 29 September, 1997 at 10.00 am at Kempson House, Camomile Street, London EC3A 7AN for the following purposes:

As ordinary business:

- 1 to receive the Report of the Directors and the Accounts of the Company for the period ended 31 March, 1997 together with the report of the Auditors thereon;
- 2 to re-elect Mr G J Wickham who was appointed as a Director of the Company during the year and will be retiring in accordance with the Articles of Association of the Company at the Annual General Meeting;
- 3 to re-elect Dr J F McOuat who was appointed as a Director of the Company during the year and will be retiring in accordance with the Articles of Association of the Company at the Annual General Meeting;
- 4 to re-elect Mr N J Troncoso who was appointed as a Director of the Company during the year and will be retiring in accordance with the Articles of Association of the Company at the Annual General Meeting;
- 5 to re-elect Mr R E Flood who was appointed as a Director of the Company during the year and will be retiring in accordance with the Articles of Association of the Company at the Annual General Meeting;
- 6 to re-elect Mr G L Toll who will be retiring by rotation in accordance with the Articles of Association of the Company at the Annual General Meeting;
- 7 to consider and, if thought fit, to pass the following Resolution which will be proposed as an Ordinary Resolution:

that KPMG Audit Plc be re-appointed auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company at a remuneration to be fixed by the Directors.

As special business:

- 8 To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

that in substitution for any existing power under Section 80 of the Companies Act 1985 (as amended and in force from time to time) (the "Act") but without prejudice to the exercise of any such power prior to the date hereof, the Directors be and are hereby generally and unconditionally authorised in accordance with Section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal value of £1,000,000, such authority to expire at the conclusion of the Annual General Meeting of the Company to be held in 1998 but so that such authority shall allow the Company to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if the power conferred herein had not expired.



NOTICE OF ANNUAL GENERAL MEETING (Continued)

- 9 To consider and, if thought fit, to pass the following Resolution as a Special Resolution:

that subject to the passing of the Ordinary Resolutions numbered 8 set out in this notice, in substitution for any existing power under Section 95 of the Companies Act 1985 (as amended and in force from time to time) (the "Act"), but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and are hereby empowered until the conclusion of the Annual General Meeting of the Company to be held in 1998, pursuant to Section 95(1) of the Act, to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority given in accordance with Section 80 of the Act by Resolution 8 above as if Section 89(1) did not apply to any such allotment provided that this power shall be limited to:

- (a) the allotment of equity securities in connection with a rights issue or open offer in favour of shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them, subject to such exclusions or other arrangements that the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under any law or requirement of any regulatory authority;
- (b) the allotment of equity securities pursuant to the terms of any share scheme for employees approved by the members in General Meeting; and
- (c) the allotment for cash (otherwise than pursuant to sub-paragraphs (a) and (b) above) of equity securities up to an aggregate nominal amount of £397,500 (equivalent to approximately 9.9 per cent of the Company's issued ordinary share capital at the date of the notice of this resolution);

but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

Registered Office:
120 Old Broad Street
London EC2N 1AR

By Order of the Board,
Keith M H Donald
Secretary

Keith M. H. Donald

Dated 5 September, 1997

Notes—

- 1 A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company.
- 2 To be effective, the enclosed form of proxy together with the Power of Attorney or authority (if any) under which it is signed or a notarially certified copy of such authority must be deposited with the Royal Bank of Scotland plc, Registrar's Department, PO Box No. 82, Caxton House, Redcliffe Way, Bristol BS99 1BR, not less than 48 hours before the time fixed for the Meeting.
- 3 The register of Directors' interests in the shares of the Company and copies of the service agreements between the Company and its Directors will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturday and public holidays excluded) until the date of the Meeting and also on the date and at the place of the Meeting from 9.30 am until the conclusion of the Meeting.



BAKYRCHIK GOLD PLC

PROXY FORM FOR USE BY ORDINARY SHAREHOLDERS

This form of proxy is for use by Shareholders at the Annual General Meeting of the Company to be held at 10.00 am on Monday 29 September, 1997 at Kempson House, Camomile Street, London EC3A 7AN.

I/We (Please insert Shareholder's name and address):

.....(BLOCK LETTERS)
being a holder of ordinary shares of 10p each of Bakyrchik Gold PLC, hereby appoint the duly appointed Chairman of the meeting or (Name and address of proxy, if not the Chairman, see note 7)

.....(BLOCK LETTERS)
to act as my/our proxy at the Annual General Meeting of the Company to be held on Monday 29 September, 1997 and at any adjournment thereof, and to vote on my/our behalf as directed below in such manner as my/our proxy thinks fit.

(Please indicate with an X in the spaces provided how you wish your votes to be cast on a poll. The numbering of Resolutions follows that in the Notice of Meeting. Should this form of proxy be returned duly signed but without a specific direction, the proxy will vote or abstain at his discretion. On any motion to amend any Resolution or to propose a new Resolution or to adjourn the Meeting, the proxy will act at his discretion).

	RESOLUTIONS	FOR	AGAINST
1	Ordinary business To receive the Report and Accounts for the year ended 31 March, 1997		
2	To re-elect Mr G J Wickham as a Director		
3	To re-elect Dr J F McQuat as a Director		
4	To re-elect Mr N J Troncoso as a Director		
5	To re-elect Mr R E Flood as a Director		
6	To re-elect Mr G L Toll as a Director		
7	To re-appoint KPMG Audit Plc as auditors and to authorise the Directors to agree their remuneration.		
8	Special Business To grant allotment authority		
9	To disapply pre-emption rights		

Date:

Signature:

Notes

1. A proxy need not be a member of the Company.
2. 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 the other joint holders. For this purpose seniority is determined by the order in which the names stand in the Register of Members in respect of the joint holding.
3. In the case of a corporation this form of proxy must be under its common seal or under the hand of an officer or attorney duly authorised.
4. To be effective, this proxy must be lodged at the address overleaf not later than 48 hours before the time of the Meeting or any adjournment thereof, together, if appropriate, with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or, where the form has been signed by an officer on behalf of a corporation, a notarially certified copy of the authority under which it is signed.
5. Any alterations made in this form should be initialled.
6. Please indicate with an X how you wish your votes cast. Unless otherwise instructed, the proxy will vote or abstain as the proxy thinks fit. On any motion to amend any resolution, to propose a new resolution, to adjourn the Meeting, or any other motion put to the meeting the proxy will act as his/her/their discretion.
7. If it is desired to appoint a proxy any person other than the Chairman of the Meeting, his/her name and address should be inserted in the relevant place, reference to the Chairman deleted and the alteration initialled.
8. The completion and return of this form will not prevent you from attending in person and voting at the Meeting should you subsequently decide to do so.

SECOND FOLD—FOLD UNDER

BUSINESS REPLY SERVICE
Licence No BS 2282

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The Royal Bank of Scotland PLC
Registrar's Department
P.O. Box No. 82
Caxton House
Redcliffe Way
Bristol BS99 7YA

FIRST FOLD—FOLD UNDER

THIRD FOLD—FOLD UNDER