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General information

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Auditors	KPMG Audit Plc 8 Salisbury Square London EC4Y 8BB
Bankers	National Westminster Bank PLC City of London Office PO Box 12264 1 Princes Street London EC2R 8PB
Registrars	Computershare Services PLC PO Box 82 Caxton House Redcliffe Way Bristol BS99 7NH
Solicitors	Norton Rose Kempson House Camomile Street London EC3A 7AN
Nominated adviser	Nabarro Wells & Co. Limited Saddlers House Gutter Lane Cheapside London EC2V 6BR
Nominated broker	T Hoare & Co. Limited 4th Floor Cannon Bridge 25 Dowgate Hill London EC4R 2YA



Directors

Executive Directors

Gordon L Toll CHAIRMAN

AUSTRALIA

Mr G Toll, aged 51, was the Technical Director until becoming its Executive Chairman in November 1996. He was previously Group Mining Executive with the RTZ Group and is currently also Executive Vice President and Chief Operating Officer of Indochina Goldfields Ltd.

Roger A Harris MANAGING DIRECTOR AND COMPANY SECRETARY

GREAT BRITAIN

Mr R Harris, aged 54, was appointed Managing Director in July 1996. He was formally Vice President with Elf's soda ash and caustic soda mining and chemical plants in the USA. He has thirty years management and sector experience.

Non-executive Directors

N Jaime Troncoso TECHNICAL DIRECTOR

UNITED STATES OF AMERICA

Mr N Troncoso, aged 56, was appointed Technical Director in November 1996, as the senior executive resident in Kazakhstan. He became Managing Director of the Bakyrchik Mining Venture following the restructuring of the Company in September 1997. He has twenty years international resource project experience.

R Edward Flood

UNITED STATES OF AMERICA

Mr R Flood, aged 53, is President of Indochina Goldfields Ltd. He was formally with NERCO Minerals and more recently with Robertson Stephens & Company, a US investment bank.

J (Jack) F McOuat

CANADA

Dr J McOuat, aged 65, is Chairman and founding partner of Watts Griffis and McOuat Limited of Toronto, a geology and mining engineering consultancy.

Graham J Wickham

GREAT BRITAIN

Mr G Wickham, aged 55, has twenty six years experience in the London financial markets having specialised in investment analysis and corporate finance.

Chairman's statement

On 29 September, 1997, at an Extraordinary General Meeting, shareholders approved a radical restructuring in which BKG Resources PLC's ("the Company or BKG") indirect interest in its then major asset, the Bakyrchik Mining Venture ("BMV") in the Republic of Kazakhstan, was reduced from 85 per cent. to 20 per cent. During 1997, fund raising for junior mining companies, and perhaps gold mining companies in particular, became progressively more difficult. By approximately mid 1997 the board of directors ("the Board"), having considered the ongoing funding requirements of the BMV, and having been advised that it would not be possible for the Company to carry out large equity funding at that time, concluded that a restructuring, involving a substantial reduction of the Company's ownership of its assets in Kazakhstan, was unavoidable. The agreement providing for the restructuring ("the Agreement"), amongst other things, transferred all but 20 per cent. of the Company's indirect interest in the BMV to Indochina Goldfields Ltd. ("Indochina") in return for, inter alia, Indochina assuming all the indebtedness with respect to the BMV and assuming responsibility for obtaining the finance for the first stage of the project's development. Indochina is the Company's largest shareholder owning approximately 28 per cent. of the Company's equity. Under the Agreement, Indochina is required to fund costs and expenses associated with the Company's 20 per cent. interest on a limited recourse basis to be repaid out of 75 per cent. of the Company's portion of any future revenues from the BMV.

Following the September 1997 restructuring, the Company has focused on transferring the administration of the BMV to Indochina, reducing the Company's ongoing costs, and of course, the search for a basis on which to build its future.

The search for a way forward has not been easy but it has been thorough and I am pleased to report that with the help of the Company's broker, T. Hoare & Co. Limited, and its advisers, Nabarro Wells & Co. Limited, an exciting opportunity has been identified based on the production of methanol from natural gas. Further details of this are given later in this Chairman's statement and in a Circular to Shareholders which was posted with this Annual Report.

BMV operations

Management of the BMV transferred to Indochina in September 1997, at which time the employment contracts of all expatriate staff located in the Republic of Kazakhstan were moved to the Indochina payroll. All accounting functions, as they applied to the BMV, were moved from London to Indochina's corporate office in Vancouver. Under the Agreement, Indochina acquired an additional 65 per cent. participating interest in Central Asian Mining Limited ("CAML" - the subsidiary through which BKG's interest in the BMV is held) from BKG by, amongst other things, forgiving the US \$20 million working capital loan which Indochina had previously provided to BKG, paying the second US \$15 million tranche due to the Government of the Republic of Kazakhstan ("the Government") for the acquisition of the Government's 60 per cent. interest in the project (the terms of which were agreed in an Acquisition Agreement signed on 13 December, 1996 and approved by shareholders on 10 April, 1997), and assuming US \$30 million in purchase instalment debt payable to the Government to complete that acquisition. The US \$30 million in purchase instalment debt was due in two instalments of US \$15 million each, payable in December 1997 and April 1998. Indochina has not paid either instalment and believes that the obligation to make either payment has not yet arisen because the Government has not met all the conditions precedent under the original Acquisition Agreement. Indochina is currently engaged in discussions on these issues with the Government.

Chairman's statement

Continued

Subsequent to Indochina assuming responsibility for all activities of the BMV, the market price of gold continued to fall reaching US \$280.00 per ounce in January 1998. Indochina has implemented a number of cost cutting schemes, and in January 1998 placed the project on a sustained care and maintenance basis.

Indochina has reported that it expects annual care and maintenance costs to be approximately US \$9.6 million per year. The total costs in 1998 will be substantially higher due to the phasing in of the care and maintenance programme and the completion of certain metallurgical test work. In May 1998, Indochina reported that it had had discussions with several potential lenders regarding project financing but that it had postponed further negotiations until the gold market price improves. Indochina is considering shutting down all activity at the mine site.

In the light of this the Board has given careful consideration to the balance sheet value that should be attributed to the Company's interest in Kazakhstan. As noted above, the Company's role in the BMV is now passive in that it has no control over the method or, perhaps more particularly, the timing of the project's development. Under the terms of the Agreement, BKG's 20 per cent. share of costs of BMV are funded on a limited recourse basis by Indochina. The accumulated balance accrues interest at LIBOR plus 6.5 per cent. As at 31 March, 1998 the accumulated balance amounted to approximately US \$4 million. Since the balance accumulates interest, the value of the asset to BKG is disadvantaged if the development of the project is delayed. Having noted that, together with the current depressed market price of gold, the uncertainty about the timing of an improvement in that market price and Indochina's postponement of the project financing negotiations, the Board believes that a conservative approach is appropriate and that therefore the asset should not currently be carried on the balance sheet with any value.

Post restructuring

Following the transfer of managerial control over what was the Company's principal asset, BKG became ineligible for full listing under the rules of the London Stock Exchange. To allow uninterrupted trading of the Company's shares, plans were made to move to the Alternative Investment Market of the London Stock Exchange ("AIM") and this was completed on 30 September, 1997. In addition, the Company no longer required the managerial or administrative staff necessary to support the engineering and development of a large mining operation. Staff was quickly reduced to two full time and two part time employees and the Company's office was relocated to less expensive premises.

Under the Agreement the Company had the right to "buy back" 10 per cent. of CAML, thereby increasing its interest to 30 per cent. The Agreement allowed this to be completed at a price of US \$1 million per percentage point until a commitment letter had been obtained for the project finance for Phase I of the BMV development, broadly defined as the operation reaching a mining rate of 400,000 tonnes per year. Alternatively the "buy back" can be made at US \$2 million per point for 30 days following announcement of that project financing, after which the option lapses. Indochina has not yet obtained project financing and so the buy back option is still in force. In response to the declining market price of gold, however, and the fact that the project is on a care and maintenance basis, the Company has not pursued this option and has no plans to do so.

The Agreement also established a second joint venture, the Exploration Joint Venture ("EJV") for the purpose of exploring certain parts of the BMV leases. The EJV is 85 per cent. owned by BKG and 15 per cent. owned by Indochina. For the same reasons as stated above in relation to the BMV, however, the Company has not made any exploration expenditures and has no plans to do so.

The worsening market conditions for gold sales and Indochina's stated intention to place the project in Kazakhstan on a care and maintenance basis quickly led to the conclusion that the Company's efforts should be focused towards the identification of alternate projects rather than those linked to the BMV. A vigorous search was initiated with the help of the Company's broker, T. Hoare & Co. Limited and its advisers, Nabarro Wells & Co. Limited. Over 20 projects were investigated and considered against the criteria that they should allow entry with the limited financial resources of the Company and yet provide significant potential for future growth in shareholder value. Of the projects reviewed, three were carried to the point of preliminary negotiations with the principals and in May 1998 the Board endorsed a conditional Option Agreement giving it the right to acquire Conpor Inc. ("Conpor") in a reverse takeover. The Company formally exercised that option on 3 August, 1998.

Conpor is a private company formed by a number of individuals with substantial experience in the offshore oil and gas industry. They have developed a business plan based on the offshore production of methanol, from gas that would otherwise be flared. Their plan has a number of features which are extremely attractive to BKG, perhaps the most important of which is that the Company will be able to secure its participation in the project without having to provide project financing. Conpor has a signed agreement for the supply of natural gas at a low price. They are in advance discussions, and have a signed Heads of Agreement for a sales or offtake contract, with a major company well established in the methanol business. The proposed sales agreement is to be structured to provide sufficient methanol offtake and revenue to enable the production contractor to obtain financing for the production facility. They are also in advanced discussions with production companies experienced in financing, constructing and operating floating offshore plant.

BKG hired Chem Systems Limited, one of the chemical industry's leading consultant companies with a specialisation in the methanol market, and asked it to analyse certain commercial aspects of the Conpor floating methanol plant project, to be located offshore Vietnam. Chem Systems' methanol markets review pointed out that pronounced price cycles had occurred in the past and would continue in the future. Nevertheless, based on the project's economic data as supplied, Chem Systems took a very positive view of its competitiveness. Chem Systems concluded it would cover its stated costs at the bottom of the estimated market cycle and generate significant margins at the top of the market cycle.

BKG also obtained independent expert verification of the technical feasibility of the concept.

The proposal to acquire Conpor is unanimously supported by your Board and is recommended by the Company's broker and financial adviser. It will involve a reverse takeover which will result in the current shareholders of BKG owning one quarter of the restructured company. Notwithstanding the inherent dilution, the Board is of the view that the shareholder value offered by such an interest is potentially significant. Your Board believes that the benefits and potential for growth in value presented by this proposal are greater than that offered by any other opportunity that the Company has been able to identify, and in which it would be able to acquire a significant role given its limited financial resources.

Chairman's statement

Continued

Under the AIM rules of the London Stock Exchange, trade in a company's securities must be suspended following the announcement of the intention to complete a reverse takeover. Consequently trading in the Company's shares was suspended on 4 August, 1998. Trading will be resumed following the Extraordinary General Meeting described in the Circular.

Moving from gold mining to methanol production will obviously represent a major change in direction for the Company. Your Directors, however, set out to find an opportunity with substantial room for growth in value combined with an entry price within the very limited financial means of the Company. We believe the takeover of Conpor fully satisfies both objectives and offers a way forward which will allow your Company to emerge and grow after the extremely difficult and disappointing events of the last two years.

G L Toll
Chairman

Directors' report

The directors present their annual report together with the audited financial statements for the year ended 31 March, 1998.

Activities

On 29 September, 1997, shareholders approved a restructuring of BKG Resources PLC ("BKG or the Company"), which inter alia transferred 76.47 per cent. of the Company's interest in Central Asian Mining Limited ("CAML") and of the Company's interest in BKG Jersey Limited to Indochina Goldfields Ltd. ("Indochina") so that the resultant ownership of CAML and of BKG Jersey Limited was 20 per cent. BKG and 80 per cent. Indochina. All aspects of managerial control, accounting and project administration as it applied to the Bakyrchik Mining Venture ("BMV") in Kazakhstan were transferred to Indochina.

The restructuring also established an Exploration Joint Venture ("EJV") between BKG and Indochina (in which BKG held an 80 per cent. interest and had managerial control) for the purpose of exploring certain lands on the BMV leases. It also provided a conditional right for BKG to buy-back up to 10 per cent. of CAML for a price of either \$1 million per percentage point or \$2 million per percentage point, depending inter alia on whether or not Indochina had announced the receipt of project financing. Due to the depressed market price for gold and Indochina's decisions to place the project on a care and maintenance basis and not to attempt to procure project financing, the Company decided not to expend funds for either the buy-back or exploration.

On 7 May, 1998 the Board endorsed a conditional Option Agreement that would, on receiving BKG shareholder approval, require Conpor Inc. ("Conpor"), a company incorporated in the British Virgin Islands, to reverse into BKG. The Option Agreement required BKG to pay Conpor \$120,000 to hold the Option until 1 July, 1998, prior to which BKG could obtain independent expert advice as to the commercial viability of the Conpor business plan. After that BKG could either retain the option for at least three further months with a payment to Conpor of \$80,000 per month or exit leaving both parties with no further obligation. BKG has the right to extend the Option Agreement a further three months, for a further three payments of \$80,000 per month in the event that the transaction takes longer than anticipated. BKG subsequently received a number of positive reports from independent experts supporting both the business plan and the technical viability of the proposal. On 29 June, 1998, the Board unanimously approved the exercise of the Option and the presentation to shareholders of a resolution to acquire Conpor. Conpor was formally notified of that exercise on 3 August, 1998.

An Extraordinary General Meeting ("EGM") will be held on 28 September, 1998 immediately following the Annual General Meeting at which a resolution to, inter alia, approve the acquisition of Conpor will be put to shareholders.

Change of name and listing status

Prior to 29 September, 1997, the Company traded as Bakyrchik Gold PLC, and was listed on the main list of the London Stock Exchange. A resolution proposing a change of name to BKG Resources PLC was approved at an EGM on 29 September, 1997, and the ordinary share capital of the Company was admitted to the Alternative Investment Market on 30 September, 1997.

Directors' report

Continued

Results and dividend

The loss for the year before and after taxation amounted to \$20,256,000 (1997: \$85,792,000). This includes the writedown of the carrying value of the Company's investments of \$15,410,000 (1997: \$73,648,000) as detailed in note 3c on page 17 and note 11 on page 19. In accordance with FRS 3: Reporting Financial Performance, the costs associated with the restructuring of the Company as at 29 September, 1997, are included within administrative expenses on the face of the Profit and Loss Account and detailed in note 3b on page 17 to the financial statements.

The directors do not recommend a payment of a final dividend for the year to 31 March, 1998 (1997: nil per share).

1997 Comparatives

The 1997 comparatives are those of the Company instead of the consolidated audited results for Bakyrchik Gold PLC that are now inappropriate following the restructuring.

Directors

The following have served as directors during the financial year:

G L Toll
R A Harris
N J Troncoso
R E Flood
J F McQuat
G J Wickham
R M Friedland (resigned 8 May, 1997)

Directors and directors' interests

The directors who held office at the end of the financial year have the following interests in the ordinary shares of the Company, according to the Register of Directors' Interests:

	<i>Interest at end of year</i>	<i>Interest at start of year</i>
R E Flood	—	5,000

On 14 December, 1997, R E Flood disposed of this interest in the ordinary shares of the Company.

None of the other directors who held office at the end of the financial year had any disclosable interest in the shares of the Company.

According to the Register of Directors' Interests, no rights to subscribe for shares in the Company were granted to any of the directors or their immediate families, or exercised by them, during the financial year except as indicated below:

	1 April, 1997	Granted during year	Lapsed during year	Exercised during year	31 March, 1998	Exercise price £	Date from which exercisable	Expiry date
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		
	80,000	—	(80,000)	—	—	2.15		
W J Hussey	44,587	—	(44,587)	—	—	1.18		
	871,523	—	(251,523)	—	620,000			

The share options in respect of the former directors NJ Bridgen and WJ Hussey lapsed on the first anniversary of their resignations.

Substantial interests

At 12 August, 1998, the Company was aware of the following substantial interests in its shares:-

	Ordinary share holding	%
Indochina Goldfields Ltd.	11,211,377	27.9
State Street Nominees Limited	3,948,232	9.8
Morstan Nominees Limited	2,546,650	6.3
NY Nominees Limited	1,726,141	4.3
Vidacos Nominees Limited	1,395,810	3.5

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

Going concern

After making enquiries, and with specific reference to the proposals detailed in the Circular to Shareholders ("Circular") included with this report, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. Accordingly the financial statements do not include any adjustments, particularly in respect of prepayments and additional provisions and liabilities, that would result from the Company ceasing to operate as a going concern.

Charitable donations and political payments

The Company made no charitable donations in the year (1997: \$96,000). No other payments political or otherwise were made during the year (1997: \$2,000,000).

Directors' report

Continued

Service agreements

Mr R Harris has a service agreement with the Company that provides for a notice period of one year to be given by either party. Mr Harris is now acting within that notice period, pursuant to a termination notice dated 8 July, 1998.

Mr G Toll has a service agreement with the Company that provides for a notice period of one year to be given by the Company. Mr Toll is required to give the Company six months notice. Mr Toll is now acting within that notice period pursuant to a termination notice dated 30 June, 1998.

Mr N Troncoso was appointed Technical Director prior to the restructuring in September 1997 when he had a service agreement covering his employment. Following restructuring, he received a new employment contract with Indochina. His previous contract with BKG has been cancelled and his current service as a director is not covered by a contract.

The service agreements of the non-executive directors are for an indefinite period. They may be terminated by a reasonable period of notice being agreed between the non-executive and the Company.

Year 2000 compliance

The directors have considered Year 2000 compliance. The Company has not incurred, nor does it expect to incur, any significant costs in connection with this issue.

Annual General Meeting

The Annual General Meeting of the Company is to be held on 28 September, 1998. A separate notice, which is enclosed with these report and accounts, details the various resolutions to be proposed and if thought fit, adopted by the shareholders.

Extraordinary General Meeting

As stated above in "Activities", an Extraordinary General Meeting is to be held on 28 September, 1998 immediately following the Annual General Meeting to consider the proposal to acquire Conpor. A Circular dated 4 September, 1998 which details the proposed acquisition accompanies these financial statements.

Auditors

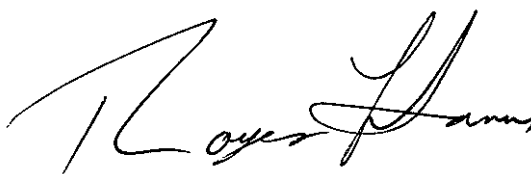
In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

4 September, 1998

By Order of the Board

R A Harris

Secretary

A handwritten signature in black ink, appearing to read 'R A Harris', is written over the printed name and title.

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 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company 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 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 Company and to prevent and detect fraud and other irregularities.

Report of the auditors to the members of BKG Resources PLC

We have audited the financial statements on pages 13 to 23.

Respective responsibilities of directors and auditors

As described on page 11, the Company's directors are responsible for the preparation of the 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 Audit Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures 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 Company'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 accounting policies concerning fundamental uncertainty as to the adequacy of the Company'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 the Company's affairs as at 31 March, 1998, and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

ICPMG Audit Plc

KPMG Audit Plc

Chartered Accountants

Registered Auditor

4 September, 1998

Profit and loss account

for the year ended 31 March, 1998

	Note	1998 \$000	1997 \$000
Administrative expenses	3	(4,424)	(12,067)
Other operating income		<u>82</u>	<u>—</u>
Operating loss	3	(4,342)	(12,067)
Interest receivable	4	124	92
Amounts written off investments	3c/11	(15,410)	(73,648)
Interest payable	5	<u>(628)</u>	<u>(169)</u>
Loss from continuing operations before taxation		(20,256)	(85,792)
Taxation	6	<u>—</u>	<u>—</u>
Retained loss for the financial year		<u>(20,256)</u>	<u>(85,792)</u>
Loss per ordinary share (US dollars)	7	(0.50)	(2.42)

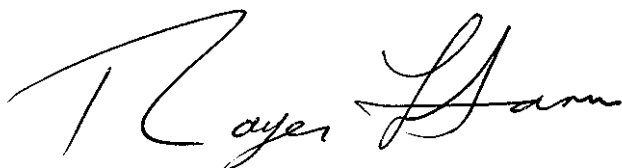
There were no recognised gains or losses other than those dealt with above.

Balance sheet

as at 31 March, 1998

	Note	1998 \$000	1997 \$000
Fixed assets			
Tangible assets	10	27	149
Investments	11	—	29,799
		<u>27</u>	<u>29,948</u>
Current assets			
Debtors	12	855	497
Cash at bank and in hand		<u>3,659</u>	<u>1,755</u>
		<u>4,514</u>	<u>2,252</u>
Creditors: amounts falling due within one year	13	<u>(159)</u>	<u>(7,562)</u>
Net current assets/(liabilities)		<u>4,355</u>	<u>(5,310)</u>
		<u>4,382</u>	<u>24,638</u>
Capital and reserves			
Called up share capital	14	6,277	6,277
Share premium account	15	96,524	96,524
Merger reserve	15	—	11,223
Profit and loss account	15	<u>(98,419)</u>	<u>(89,386)</u>
Equity shareholders' funds		<u>4,382</u>	<u>24,638</u>

The financial statements were approved by the Board of Directors on 4 September, 1998 and were signed on its behalf by:



R A Harris
Managing Director

Notes to the financial statements

for the year ended 31 March, 1998

1 Accounting policies

(a) *Basis of preparation*

The financial statements have been prepared on a going concern basis which the directors believe to be appropriate in the light of the existing resources of the Company, their assessment of the implications of the proposals to shareholders contained in the Circular dated 4 September, 1998 and the Company's funding requirements in the foreseeable future.

The Company retains an indirect 20 per cent. holding in the BMV. Following the completion of restructuring arrangements approved by shareholders at the EGM held on 29 September, 1997, the Company is no longer required to fund the initial development and operations of the BMV.

The Company's share of the costs of BMV are funded by Indochina on a non recourse basis during the period prior to completion of the Phase I development of the mine. The accumulated carried balance of \$4,007,000 as at 31 March, 1998, is recoupable at a rate of 75 per cent. of the Company's entitlement to a 20 per cent. share of future net revenues of BMV, if any. Following a reappraisal of the commercial and funding prospects of the Bakyrchik mine in the context of the continuing low gold price, the directors have the view that it is unlikely that BMV will generate net revenues for its participants in the foreseeable future. The Company would have a liability equal to the lower of the accumulated balance under the non recourse funding arrangements or the net proceeds recoverable, payable immediately in the event that it disposes of all or part of its interest in BMV.

Should resolution 1 proposed at the EGM to be held on 28 September, 1998, be approved by shareholders, the Company will complete the acquisition of Conpor (together the Enlarged Group). The costs of the transaction and the initial funding requirements of the Enlarged Group will need to be met out of the resources of the Company. The directors believe that the existing cash resources available to the Company will be sufficient to fund its expenses until the end of September 1999. This period is expected to be sufficient to enable the Enlarged Group to complete the contractual arrangements for each of the purchase of gas from the Rang Dong field offshore Vietnam, the processing of that gas into methanol and the sale of the methanol produced.

The production facilities for that project are expected, based on agreements under negotiation with production contractors, to be funded without recourse to the Enlarged Group's own resources.

Additional working capital will be required subsequent to 30 September, 1999, for the period of development prior to the commencement of methanol sales. The directors believe that sufficient additional funds will be available to meet these requirements and enable the continued development of the business.

Notes to the financial statements

Continued

If resolution 1 proposed at the EGM is not approved by shareholders with the result that the acquisition of Conpor is not completed, the Company will still be required to fund its own activities. In such circumstances, the existing financial resources of the Company are estimated to be sufficient to enable the Company to continue trading until at least September 1999. In those circumstances, however, the directors are of the opinion that the severely limited remaining financial resources of the Company would make a successful search for an alternate project extremely difficult.

The financial statements do not include any adjustments, particularly in respect of prepayments, provisions and liabilities, that would result from the Company ceasing to operate as a going concern.

Under Financial Reporting Standard 1 (Revised) the Company is exempt from the requirement to prepare a cash flow statement on the grounds of size.

(b) *Currency translation*

The financial statements are presented in 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.

(c) *Tangible fixed assets and depreciation*

Fixed assets are stated at cost and are depreciated over their estimated useful lives having regard to their residual values. The principal depreciation rates are:

Motor vehicles	25% per annum, straight line
Plant and equipment	10% to 25% per annum, straight line

(d) *Deferred taxation*

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

(e) *Operating leases*

Rentals applicable to operating leases are charged to the profit and loss account as incurred.

2 Segmental reporting

For the first half of the year the Company's (then Bakyrchik Gold PLC) main business was the development and operation of a gold mine in Kazakhstan. Following the restructuring on 29 September, 1997, the Company has concentrated upon the investigation of other resource based opportunities.

3 Operating loss

(a) *Operating loss is stated after charging:*

	1998	1997
	\$000	\$000
Auditors remuneration:		
audit	32	80
other services	206	193
Depreciation	30	58
Loss on disposal of fixed assets	104	10
Currency exchange differences	102	53

Included in the fees for other services to KPMG Audit Plc is \$149,000 in respect of accountancy services provided in connection with the restructuring of September 1997. This amount forms part of the administrative expenses - restructuring costs as detailed in note 3(b) of these financial statements.

(b) *Restructuring costs*

Included within administrative expenses of \$4,424,000 are costs amounting to \$1,770,000 relating to the restructuring of the Company's investments and funding commitments during the year.

(c) *Amounts written off investments*

A provision of \$15,410,000 (1997: \$73,648,000) has been made during the year ended 31 March, 1998, representing the directors' assessment of the permanent diminution in the value of investments up to 31 March, 1998. This is further explained in Note 11 Fixed asset investments.

4 Interest receivable

	1998	1997
	\$000	\$000
Interest receivable on short term deposits	124	92

5 Interest payable

	1998	1997
	\$000	\$000
Loans repayable within one year	628	169

Interest payable relates to loans from Indochina in the first half of the financial year. These were repaid as part of the restructuring in September 1997.

Notes to the financial statements

Continued

6 Taxation

The Company, after adjusting for any disallowable items, has no liability to taxation.

7 Loss per ordinary share

The calculation of loss per ordinary share is based on the loss for the year of \$20,256,000 (1997: \$85,792,000) and the weighted average number of shares in issue of 40,154,664 (1997: 35,380,077).

8 Directors and employees

	1998	1997
	£000	£000
Directors' emoluments	508	734

The aggregate of emoluments of the highest paid director was £273,000 (1997: £290,000).

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

	1998	1997
Administration	10	12

The amount charged in arriving at the operating loss for the year in respect of all employees was:

	1998	1997
	\$000	\$000
Wages and salaries	1,063	981
Social security costs	76	104
Other pension costs	23	48
	1,162	1,133

The Company does not operate any pension schemes. Contributions were made into personal pensions of certain directors and employees.

9 Lease commitments

The minimum operating lease payments which the Company is committed to pay against existing agreements at the balance sheet date during the year to 31 March, 1999, amounts to \$94,000.

The analysis of annual lease commitments in respect of property by expiry date is as follows:

	1998	1997
Between two and five years	94	—

10 Tangible fixed assets

	Plant & Equipment \$000
Cost	
1 April, 1997	245
Additions	13
Disposals	(180)
31 March, 1998	<u>78</u>
Depreciation	
1 April, 1997	96
Charge for year	30
Disposals	(75)
31 March, 1998	<u>51</u>
Net Book Value	
31 March, 1998	<u>27</u>
31 March, 1997	<u>149</u>

11 Fixed assets investments

	Trade investments \$000	Shares in subsidiary undertakings \$000	Total \$000
Cost			
1 April, 1997	4,638	98,809	103,447
Additions	—	10,100	10,100
Disposals	(4,638)	(96,362)	(101,000)
Transfers	12,547	(12,547)	—
31 March, 1998	<u>12,547</u>	<u>—</u>	<u>12,547</u>
Provision			
1 April, 1997	4,638	69,010	73,648
Amounts written off investments	12,547	2,863	15,410
Adjustment for disposal	(4,638)	(71,873)	(76,511)
31 March, 1998	<u>12,547</u>	<u>—</u>	<u>12,547</u>
Net book value			
31 March, 1998	<u>—</u>	<u>—</u>	<u>—</u>
31 March, 1997	<u>—</u>	<u>29,799</u>	<u>29,799</u>

Notes to the financial statements

Continued

11 Fixed assets investments (continued)

Following a reappraisal of the commercial and funding prospects of the Bakyrchik mine in the context of the continuing low gold price, the directors have reviewed the carrying value of the Company's investments in CAML and BKG Jersey Limited. The directors have determined that a further permanent impairment in the value of the Company's investments has taken place in the second half of the financial year (following a provision of \$2,863,000 made in the first half). A full provision against the previous carrying value of \$12,547,000 has been taken in the year and included in the profit and loss account as "amounts written off investments".

The Company's share of costs of BMV are funded by Indochina on a non-recourse basis during the period prior to completion of Phase I development of the mine. The accumulated carried balance of \$4,007,000 million as at 31 March, 1998, is recoupable out of the Company's entitlement to a share of future net revenues of BMV, if any, and carries interest at LIBOR plus 6.5%. Following a reappraisal of the commercial and funding prospects of the Bakyrchik mine in the context of the continuing low gold price, the directors have reached the view that it is unlikely that BMV will generate net revenues for its participants in the foreseeable future. The Company would have a liability equal to the lower of the accumulated balance under the limited recourse funding arrangements or the net proceeds receivable, payable immediately, in the event that it disposes of all or part of its interest in BMV.

Company and country of incorporation and operation	Proportion of class held	BKG PLC interest	Nature of business
BKG Jersey Limited (Jersey, Channel Islands)	20%	20%	Finance company
Central Asian Mining Limited (British Virgin Islands)	20%	20%	Holding company

12 Debtors

	1998 \$000	1997 \$000
Other debtors	462	100
Prepayments and accrued income	393	397
	<u>855</u>	<u>497</u>

Included within prepayments is \$189,000 (1997: nil) in respect of an operating lease as detailed in Note 9.

13 Creditors: amounts falling due within one year

	1998	1997
	\$000	\$000
Trade creditors	21	1,042
Amounts owed to Indochina	—	4,935
Other creditors	25	77
Taxes and social security	18	—
Accruals and provisions	95	1,508
	<u>159</u>	<u>7,562</u>

14 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, 1997, and 31 March, 1998	<u>40,154,664</u>	<u>4,015</u>	<u>6,277</u>

At 31 March, 1998, the following options to subscribe for new ordinary shares in the Company were outstanding:

	Number of shares	Price	Period during which options exercisable
No. 2 Unapproved Executive Share Option Scheme	200,000	£3.20	10/1/97—09/1/2003
	370,000	£2.15	21/1/98—20/1/2004
	50,000	£3.11	09/8/97—08/8/2003
	<u>620,000</u>		

The Company has also granted Gerald Metals Inc. on 1 July, 1997, a three year option to purchase up to 300,000 ordinary shares at £0.61.

Notes to the financial statements

Continued

15 Reserves

	Share Premium Account \$000	Merger Reserve \$000	Profit and Loss Account \$000	Total \$000
1 April, 1997	96,524	11,223	(89,386)	18,361
Loss for year	—	—	(20,256)	(20,256)
Transfer to profit and loss account	—	(11,223)	11,223	—
31 March, 1998	96,524	—	(98,419)	(1,895)

The balance of \$11,223,000 brought forward on the merger reserve arose on the combination of the Company and the intermediate holding company of BMV. The provision against the carrying value of BMV reflects provision against value attributed to the investment in BMV at the time of this combination. Following the write down in the carrying value of the investment, taken in the profit and loss account in the year, the related balance on the merger reserve has been transferred into the profit and loss account reserve.

16 Reconciliation of movements in shareholders' funds

	1998 \$000	1997 \$000
Loss for the year	(20,256)	(85,792)
Issue of shares	—	28,067
Net reduction in shareholders' funds	(20,256)	(57,725)
Opening shareholders' funds	24,638	82,363
Closing shareholders' funds	4,382	24,638

17 Related party transactions

Provision of services by Ivanhoe Capital PTE Limited.

Mr R Friedland, a director of the Company until 8 May, 1997, and of CAML 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. Mr G Toll is a director of Ivanhoe and Mr R Rochette, a director of CAML 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 and 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, 1998, were \$50,880 (1997: \$363,516) and \$55,120 (1997: \$393,809) respectively. At 31 March, 1998 amounts outstanding of \$nil (1997: \$38,880) and \$nil (1997: \$42,120) 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 by Ivanhoe to the Company of office space, furnishings, equipment, communications facilities and mining and technical and geological services in Singapore. Under the agreement the Company was required to pay the costs of salary and overheads relating to the provision of the said services, and an administrative fee of five per cent. Of such costs, amounts invoiced in the financial year ended 31 March, 1998, were \$65,632 (1997: \$337,169). At 31 March, 1998, an amount outstanding of \$ nil (1997: \$66,400) was due by the Company to Ivanhoe in respect of this agreement.

The above arrangements were terminated on 30 September, 1997.

BKG RESOURCES 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 28 September, 1998, 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, 1998, together with the Report of the Auditors thereon;
- 2 to re-elect Dr J F McQuat who will be retiring by rotation in accordance with the Articles of Association of the Company at the Annual General Meeting;
- 3 to re-elect Mr R E Flood who will be retiring by rotation in accordance with the Articles of Association of the Company at the Annual General Meeting;
- 4 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:

- 5 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 1999 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)*

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

that subject to the passing of the Ordinary Resolution number 5 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 1999, 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 5 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:
14-16 Regent Street
London SW1Y 4PH

By Order of the Board,
Roger A Harris
Secretary

Dated 4 September, 1998

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 Computershare Services PLC, PO Box No. 82, Caxton House, Redcliffe Way, Bristol BS99 7ZZ, 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.

BKG RESOURCES 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 28 September, 1998 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 BKG Resources 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 28 September, 1998, and at any adjournment thereof, and to vote on my/our behalf as directed below.

(Please indicate with an X in the spaces provided below how you wish your votes to be cast. The numbering of Resolutions follows that in the Notice of the Meeting with Resolutions 1 to 5 being Ordinary Resolutions and Resolution 6 being a Special Resolution. 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, 1998		
2	To re-elect Dr J F McQuat as a Director		
3	To re-elect Mr R E Flood as a Director		
4	To re-appoint KPMG Audit Plc as auditors and to authorise the directors to agree their remuneration.		
5	Special Business To grant allotment authority		
6	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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Computershare Services PLC
P.O. Box No. 82
Caxton House
Redcliffe Way
Bristol BS99 7ZZ

FIRST FOLD—FOLD UNDER

THIRD FOLD—FOLD UNDER