DRAGON ENERGY LTD

ACN 119 992 175

2007 FINANCIAL REPORT

For the period from incorporation on 1 June 2006 to 30 June 2007

Dragon Energy Ltd
澳大利亚华龙能源有限公司

CORPORATE DIRECTORY

Directors

Mr Nigel Bruce Clark	Non-Executive Chairman
Mr Gang Xu	Managing Director
Ms Alice McCleary	Non-Executive Director
Mr Wenle Zeng	Non-Executive Director

Auditors

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay Street, Subiaco, WA 6008

Company Secretary

Mr Anthony Ho

Principal Place of Business and Registered Office

Level 3, Mercury House
33 Richardson Street
West Perth WA 6005

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DIRECTORS' REPORT

The directors present their report together with the financial report of Dragon Energy Ltd (the "Company") for the period from incorporation on 1 June 2006 to 30 June 2007 (the "Period") and the auditor's report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the Period are:

Mr Nigel Bruce Clark
Non-Executive Chairman – appointed 5 October 2007

Mr Clark is a geologist with over 30 years experience in business development and management in the international mining industry. He has held senior exploration and management roles in major mining companies. He is currently the chairman of Central China Goldfields Plc, a company listed on the Alternative Investment Market in London.

Mr Gang Xu
Managing Director – appointed 1 June 2006

Mr Xu is a senior uranium geologist with over 24 years experience in the mining and energy industry career. He spent 10 years with China National Nuclear Corporation exploring for uranium in China. Mr Xu completed his Masters of Business Administration in the United States. He has also held a senior marketing and finance role for an Australian listed gold company operating in China. He is currently a non-executive director of UraniumSA Limited and KTL Technology Limited.

Ms Alice McCleary
Non-Executive Director – appointed 5 October 2007

Ms McCleary is a Chartered Accountant with over 20 years experience in public practice as a tax consultant. She is currently an independent director of ASX-listed Great Southern Plantations Ltd, UraniumSA Limited, Archer Exploration Limited and TWT Group Limited. In addition, she holds a range of community service positions and directorships.

Mr Wenle Zeng
Non-Executive Director – appointed 24 July 2007

Mr Zeng is a geologist with over 25 years experience in the uranium exploration and mining industry in China. He is presently the deputy director of the Geology Department of the Jiangxi Nuclear Industry Geological Bureau.

Mr Peter Lance Dillon
Non- Executive Director and Company Secretary - Appointed 6 February 2007, Resigned 31 August 2007

Mr Naiming Li
Non- Executive Director - Appointed 1 June 2006, Resigned 5 October 2007

Mr Anthony Webster Smith
Non- Executive Director - Appointed 1 June 2006, Resigned 5 October 2007

Mr Iain Watson
Non- Executive Director - Appointed 1 June 2006, Resigned 6 February 2007

COMPANY SECRETARY

Mr Anthony Ho
Company Secretary – appointed 31 August 2007

Mr Ho is a Chartered Accountant with over 30 years of experience in accounting and corporate activities. He is currently the principal of an advisory practice focusing on ASX related activities.

Ms Zoe Wood
Company Secretary - Appointed 1 June 2006, Resigned 6 February 2007

DIRECTORS' MEETINGS

The number of directors' meetings and the number of meetings attended by each of the directors of the Company during the Period are:

	Board Meetings	
Director	**Held while Director**	**Attended**
Mr N Clark	-	-
Mr P Dillon	2	2
Mr G Xu	4	4
Ms A McCleary	-	-
Mr N Li	4	2
Mr A Smith	4	4
Mr I Watson	2	-
Mr W Zeng	-	-

PRINCIPAL ACTIVITY

The principal activity of the Company during the Period was the development of interests in exploration projects.

RESULTS

The Company incurred a loss from ordinary activities of $124,056 after income tax for the Period.

REVIEW OF ACTIVITIES

Since its incorporation, the Company focussed its activities in capital raising and development of interests in exploration projects particularly in the uranium industry.

DIVIDENDS

No dividend has been declared or paid by the Company to the date of this report.

STATE OF AFFAIRS

The Company was incorporated on 1 June 2006 as a public company for the purposes of developing interests in exploration projects in the uranium industry.

On 1 June 2006, the Company issued 10,000 fully paid ordinary shares to raise $100.

Dragon Energy Ltd
澳大利亚华龙能源有限公司

ENVIRONMENTAL REGULATION

The Company's operations are subject to environmental regulations under Commonwealth and State legislation. The directors believe that the Company has adequate systems in place for the management of the requirements under those regulations, and are not aware of any breach of such requirements as they apply to the Company.

EVENTS SUBSEQUENT TO BALANCE DATE

Other than any matters described in the notes to these financial statements, there has not arisen in the interval between the end of the Period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

LIKELY DEVELOPMENTS

The Company will continue to pursue its main objective of developing interests in exploration projects.

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report because disclosure of such information would likely result in unreasonable prejudice to the Company.

DIRECTORS' REMUNERATION

The Board as a whole is responsible for considering remuneration policies and packages applicable both to Board members and senior executives of the Company. Broadly, the Company's remuneration policy is to ensure that any remuneration package properly reflects the person's duties and responsibilities and that it is competitive in attracting, retaining and motivating people of the highest quality. Given the Company's circumstances and stage of development, non-executive directors' fees were not paid during the year.

The Company does not presently employ any executive officers.

OPTIONS

No options have been granted during or since the end of the Period.

DIRECTORS' INTERESTS

The relevant interest of each director in the shares issued by the Company at the date of this report is as follows:

Director	Ordinary shares
Mr N Clark	500,000
Mr G Xu[1]	23,596,207
Ms A McCleary[2]	250,000
Mr W Zeng	250,000

1. includes 18,000,000 shares held indirectly by Mr Xu & Ms Liu as trustee for the Xu and Liu Family Trust Account of which Mr Xu is a beneficiary and 5,586,207 shares held indirectly by Chen & Xing Pty Ltd as trustee for the Gang Xu Super Fund Account;
2. includes 125,000 shares held indirectly by Ms Alice & Mr Brian John McCleary as trustee for the Alice McCleary Super Fund Account of which Ms McCleary is a beneficiary.

INDEMNIFICATION OF OFFICERS AND AUDITORS

Indemnification

The Company has agreed to indemnify the current directors and company secretary of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and company secretary of the Company, except where the liability arises out of conduct involving a lack of good faith.

The agreement stipulates that the Company will meet to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

Insurance Premiums

As at the date of this report no insurance policies have been entered into.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 21 of the financial report.

Dated at Perth this 20th day of December 2007

Signed in accordance with a resolution of the directors:

Gang Xu
Managing Director

Dragon Energy Ltd
澳大利亚华龙能源有限公司

INCOME STATEMENT

for the period from incorporation on 1 June 2006 to 30 June 2007

	Note	2007 $
Corporate and administrative expenses		(124,056)
Loss before income tax		(124,056)
Income tax	3	-
Net loss for the Period		(124,056)
Basic loss per share (dollars)	13	(12.41)

This Income Statement is to be read in conjunction with the accompanying notes.

Dragon Energy Ltd
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BALANCE SHEET
as at 30 June 2007

	Note	2007 $
CURRENT ASSETS		
Cash and cash equivalents	4	821
Trade and other receivables	5	5,158
Total Current Assets		5,979
NON CURRENT ASSETS		
Property, plant & equipment	6	6,984
Total Non Current Assets		6,984
TOTAL ASSETS		12,963
CURRENT LIABILITIES		
Trade and other payables	7	9,196
Loans and borrowings	8	127,723
Total Current Liabilities		136,919
TOTAL LIABILITIES		136,919
DEFICIENCY IN NET ASSETS		**(123,956)**
EQUITY		
Issued capital	9	100
Accumulated losses	10	(124,056)
TOTAL DEFICIENCY IN EQUITY		**(123,956)**

This Balance Sheet is to be read in conjunction with the accompanying notes.

Dragon Energy Ltd
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STATEMENT OF CASH FLOWS

for the period from incorporation on 1 June 2006 to 30 June 2007

	Note	2007 $
Cash flows from operating activities		
Cash payments in the course of operations		(120,003)
Net cash used in operating activities	16	(120,003)
Cash flows from investing activities		
Payments for property, plant & equipment		(6,998)
Net cash used in investing activities		(6,998)
Cash flows from financing activities		
Proceeds from the issue of share capital	9	100
Proceeds from borrowings		127,722
Net cash provided by financing activities		127,822
Net increase in cash held		**821**
Cash at the beginning of the Period		-
CASH AT THE END OF THE PERIOD		**821**

This statement of cash flows is to be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

for the period from incorporation on 1 June 2006 to 30 June 2007

	Issued Capital $	Accumulated Losses $	Total Equity $
Balance as at 1 June 2006	-	-	-
Loss for the Period	-	(124,056)	(124,056)
Issue of share capital	100	-	100
At 30 June 2007	**100**	**(124,056)**	**(123,956)**

The statement of changes in equity is to be read in conjunction with the accompanying notes.

NOTES OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Company

Dragon Energy Ltd (the "Company") is a company domiciled in Australia. The financial report of the Company for the period from incorporation on 1 June 2006 to 30 June 2007 (the "Period") comprises the Company.

Basis of preparation

Statement of compliance

The financial report is a general-purpose financial report, which has been prepared in accordance with the Australian Accounting Standards ("AASBs") (including Australian interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The financial report of the Company also complies with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 20 December 2007.

Basis of measurement

The financial report is prepared on the accruals basis and the historical cost basis.

Going concern basis

The directors have prepared the financial statements on the basis of going concern, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The directors believe this to be appropriate for the following reasons:

- Subsequent to balance date (refer Note 18), the Company raised $603,586 as equity; and
- The Company has progressed plans to apply to ASX Limited for admission to its Official List and raise further equity in the process.

Based on the above, the directors are confident that the Company will be able to continue operations into the foreseeable future as a going concern.

Use of estimates and judgements

The preparation of a financial report in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in this financial statement.

The Company has elected to apply the following pronouncement to the annual reporting period beginning 1 June 2006:

- revised AASB 101 *Presentation of Financial Statements* (issued October 2006).

This includes applying the pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures are no longer required and have therefore been omitted.

New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Company in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

(a) AASB 7 *Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023, AASB 1038 and AASB 8].* AASB 7 & and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. AASB 8 is applicable to annual reporting periods beginning on or after 1 January 2009. The Company has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Company's financial instruments.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

Share capital

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

Impairment

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Revenue

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchange of goods of services of the same nature with any cash consideration is not recognised as revenue.

Interest income

Interest income is recognised as it accrues.

Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

(a) except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

(a) except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Dragon Energy Ltd and its subsidiary have unused tax losses. However, no deferred tax balances have been recognised, as it is considered that asset recognition criteria have not been met at this time.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

Goods and Services Tax (cont'd)

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Loans and borrowings

Loans are recognised at their principal amount, subject to set-off arrangements. Borrowing costs are recognised as an expense when incurred.

Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company. Trade accounts payable are normally settled within 60 days.

Earnings per share

The Company presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the Period.

Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of business combination is based on market values. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

Each asset of property, plant and equipment is carried at cost, less where applicable, any accumulated depreciation and impairment losses. Plant and equipment are measured on the cost basis less depreciation and impairment losses.

Depreciation

Items of property, plant and equipment are depreciated using the diminishing value method over their estimated useful lives to the Company. The depreciation rates used for each class of asset for the current period are as follows:

- Plant and Equipment 25%
- Fixtures and Fittings 25%

Assets are depreciated from the date the asset is ready for use. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the assets continual use or subsequent disposal. The expected cash flows have been discounted to their present value in determining the recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Comparatives

The Company was incorporated on 1 June 2006. These financial statements are for the period from incorporation to 30 June 2007 (the "**Period**") and consequently no comparatives are necessary.

2. AUDITORS' REMUNERATION

Audit services:	**2007 $**
Auditors of the Company	
BDO Kendalls Audit & Assurance (WA) Pty Ltd	
- audit and review of financial reports	3,000

3. TAXATION

(a) Income tax benefit	-

(b) Numerical reconciliation between tax benefit and pre-tax net loss

Loss before income tax benefit	(124,056)
Income tax benefit calculated at rates noted in (d) below	(37,217)
Tax effect on amounts which are not tax deductible:	
Sundry amounts	240
Future income tax benefit not brought to account	36,977
Income tax credit	-

(c) Tax losses

Unused tax losses for which no deferred tax asset has been recognised (as recovery is currently not probable)	
Potential at 30%	36,977

(d) Tax Rates

The potential tax benefit at 30 June 2007 in respect of tax losses not brought into account has been calculated at 30%.

4. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	821

5. TRADE AND OTHER RECEIVABLES

Sundry debtors	5,158

6. PROPERTY, PLANT AND EQUIPMENT

	Furniture & Fixtures	**Plant & Equipment**	**Total $**
At 1 June 2006	-	-	-
Additions	1,090	5,908	6,998
Disposals	-	-	-
Depreciation charge for the year	(2)	(12)	(14)
At 30 June 2007, net of accumulated depreciation	**1,088**	**5,896**	**6,984**
At 30 June 2007			
Cost	1,090	5,908	6,998
Accumulated depreciation	(2)	(12)	(14)
Net carrying amount	**1,088**	**5,896**	**6,984**

7. TRADE AND OTHER PAYABLES

	2007 $
Other creditors and accruals	9,196

8. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate risk, see Note 11.

Unsecured loan	127,723

This unsecured loan does not bear interest and is repayable at call.

9. ISSUED CAPITAL

10,000 fully paid ordinary shares	100

	2007 Number of Shares	2007 $
Movements during the Period		
Balance at beginning of the Period	-	-
Shares issued upon incorporation	10,000	100
Balance at end of the Period	10,000	100

Ordinary shares entitle the holder to participate in dividends and the proceeds from winding up of the Company in proportion to the number and amounts paid on the shares held.

10. ACCUMULATED LOSSES

Accumulated losses at the beginning of the Period	-
Loss for the Period	(124,056)
Accumulated losses at the end of the Period	(124,056)

11. FINANCIAL INSTRUMENTS DISCLOSURE

Exposure to credit and interest rate risks arises in the normal course of the Company's business.

Credit risk

The credit risk on financial assets of the Company which have been recognised on the balance sheet is generally the carrying amount, net of any provision for doubtful debts.

The total credit risk exposure of the Company could be considered to include the difference between the carrying amount of the receivable and the realisable amount.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Interest rate risk

Other than cash, all of the Company's financial assets and liabilities are non-interest bearing.

Cash comprises funds held in operating accounts or as cash on hand. Funds held in the operating account earned interest during the Period at rates of between 0% and 6.1% per annum, depending on account balances.

11. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Sensitivity analysis

In managing interest rate risk the Company endeavours to reduce the impact of short-term fluctuations on the Company's earnings. Over the longer term, however, permanent changes in interest rates will have an impact on profit, although the extent of that impact will depend on the level of cash resources held by the Company. A general increase of one percentage point in interest rates would not be expected to materially impact profits.

Fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

Trade and other receivables/ payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. There are no other receivables/ payables.

12. COMMITMENTS

Service contracts

The Company has entered into a service agreement with Townshend York Pty Ltd ("Townshend York"), a company associated with Mr Anthony Ho, to provide company secretarial services in connection with the operations of the Company, under which Townshend York receives $65,000 per annum. The agreement is for a term of 3 years with effect only from the listing of the Company on ASX. At 30 June 2007, the unexpired portion of the term of agreement amounts to $195,000.

13. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share at 30 June 2007 was based on the loss attributable to ordinary shareholders of $124,056 and a weighted average number of ordinary shares outstanding during the Period of 10,000 share calculated as follows:

Loss attributable to ordinary shareholders	**$**
Net loss for the Period	(124,056)

Weighted average number of ordinary shares	**Number 2007**
Issued ordinary shares at 1 June 2006	-
Effect of shares issued on 1 June 2006	10,000
	10,000

14. SEGMENT INFORMATION

The Company's activities are predominantly located in Perth, Western Australia.

14. SEGMENT INFORMATION

The Company's exploration activities will predominantly be located in Australia. It is expected that more than 90% of the Group's revenue from ordinary activities and assets relate to these operations.

15. RELATED PARTIES

Details of key management personnel

The following were key management personnel of the Company at any time during the Period and unless otherwise indicated were key management personnel for the entire period:

Directors

Mr Nigel Bruce Clark	Non-Executive Chairman
Mr Mr Gang Xu	Managing Director (Executive)
Ms Alice McCleary	Non-Executive Director
Mr Wenle Zeng	Non-Executive Director
Mr Peter Lance Dillon	Non-Executive Director
Mr Naiming Li	Non-Executive Director
Mr Anthony Webster Smith	Non-Executive Director
Mr Iain Watson	Non-Executive Director

Key management personnel remuneration

Details of the nature and amount of each major element of the remuneration of each key management personnel of the Company for the Period are:

		SHORT TERM	
	Year	**Salary / fees $**	**Total $**
Directors			
Mr NB Clark	2007	-	-
Mr G Xu	2007	-	-
Ms A McCleary	2007	-	-
Mr W Zeng	2007	-	-
Mr PL Dillon	2007	-	-
Mr N Li	2007	-	-
Mr AW Smith	2007	-	-
Mr I Watson	2007	-	-
Total compensation, key management personnel	**2007**	**-**	**-**

Other key management personnel transactions with the Company

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

One of those entities transacted with the Company during the Period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The Company borrowed $127,272 from Mr Xu during the Period for the purpose of funding its working capital. The loan is interest free and repayable within 7 business days of the Company listing on ASX.

Movements in shares

The movement during the Period in the number of ordinary shares in Dragon Energy Ltd held, directly, indirectly or beneficially by each key management person, including their personally-related entities, is as follows:

	Held at 1 Jun 2006	Purchases	Received on exercise of options	Other changes	Held at 30 Jun 2007
Directors					
Mr NB Clark	-	-	-	-	-
Mr G Xu	-	10,000	-	-	10,000
Ms A McCleary	-	-	-	-	-
Mr W Zeng	-	-	-	-	-

No shares were granted to key management personnel during the Period as compensation.

16. RECONCILIATION OF CASH FLOWS USED IN OPERATING ACTIVITIES

	$
Cash flows from operating activities	
Loss for the Period	(124,056)
Adjustments	-
Operating loss before changes in working capital and provisions	(124,056)
Change in trade and other receivables	(5,157)
Change in trade and other payables	9,210
Net cash used in operating activities	(120,003)

17. CONTINGENT LIABILITIES

The Company has no contingent liabilities at balance date.

18. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date:

1. the Company issued 23,586,207 fully paid ordinary shares at $0.001 per share as founder shares to raise $23,586;
2. the Company issued 11,200,000 fully paid ordinary shares at $0.025 per share as seed capital shares to raise $280,000; and
3. The Company issued 3,000,000 fully paid ordinary shares at $0.10 per share as seed capital shares to raise $300,000.

The financial effect of the above transactions has not been brought to account in the financial statements for the Period.

DIRECTORS' DECLARATION

In the opinion of the directors of Dragon Energy Ltd:

(a) the financial statements and notes, set out on pages 5 to 17, are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Company's financial position as at 30 June 2007 and of its performance for the Period ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth this 20th day of December 2007.

Signed in accordance with a resolution of the directors.

Gang Xu
Managing Director

BDO Kendalls

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRAGON ENERGY LTD

Report on the Financial Report

We have audited the accompanying financial report of Dragon Energy Limited, which comprises the balance sheet as at 30 June 2007, the income statement, statement of changes in equity and cash flow statement for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion the financial report of Dragon Energy Limited is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the period ended on that date;

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001; and*

(c) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1

BDO Kendalls Audit and Assurance (WA) Pty Ltd

S. Andrawes
Director

Western Australia, 20 December 2007

BDO Kendalls

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20 December 2007

The Directors
Dragon Energy Ltd
Level 3, Mercury House
33 Richardson Street
West Perth WA 6005

Dear Sirs

DECLARATION OF INDEPENDENCE BY BDO KENDALLS AUDIT & ASSURANCE (WA) PTY LTD TO THE DIRECTORS OF DRAGON ENERGY LIMITED

To the best of my knowledge and belief as lead auditor of Dragon Energy Limited for the period ended 30 June 2007, I declare that to the best of my knowledge there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

- no contraventions of any applicable code of professional conduct in relation to this audit.

Yours faithfully
BDO Kendalls Audit & Assurance (WA) Pty Ltd

S. Andrawes
Director