DRAGON ENERGY LTD

ACN 119 992 175

ANNUAL REPORT

for the year ended 30 June 2008

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

79 Broadway
Nedlands WA 6009

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DIRECTORS' REPORT

The directors present their report together with the financial report of Dragon Energy Ltd (the "Company") and of the Consolidated Entity, being the Company and its subsidiary for the year ended 30 June 2008 and the auditor's report thereon.

DIRECTORS

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

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

Mr Clark is a geologist with over 35 years experience in business development and management in the international mining industry. He has held senior exploration, mining and management roles in the industry. He is currently the Chairman of Central China Goldfields Plc, a company listed on the Alternative Investment Market in London as well as being Chairman of the China International Mining Group and Chairman of the British Chamber of Commerce in China.

Mr Gang Xu
Managing Director – appointed 1 June 2006

Mr Xu is a geologist with over 25 years experience in the mining and energy industries. 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 and Masters of Geology in China. 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 Ltd, UraniumSA Limited and Archer Exploration Limited. In addition, she holds a range of community and government 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

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.

DIRECTORS' REPORT (cont'd)

DIRECTORS' MEETINGS

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

	Board Meetings	
Director	**Held while Director**	**Attended**
Mr N Clark	9	9
Mr G Xu	11	11
Ms A McCleary	9	9
Mr W Zeng	11	8
Mr P Dillon	-	-
Mr N Li	2	2
Mr A Smith	2	-

PRINCIPAL ACTIVITY

The principal activity of the Consolidated Entity during the year was the development of interests in exploration projects.

RESULTS

The Consolidated Entity incurred a loss from operating activities of $479,733 (2007: loss of $124,056) after income tax for the financial year.

REVIEW OF ACTIVITIES

During the year, the Consolidated Entity focussed its activities in capital raising and development of interests in exploration projects in the resource industry in Australia.

DIVIDENDS

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

STATE OF AFFAIRS

The Consolidated Entity continued developing interests in exploration projects in the resource industry during the year.

Fully paid ordinary shares issued during the year were as follows:

- The issue of 23,586,207 fully paid ordinary shares at $0.001 each to raise $23,586
- The issue of 10,250,000 fully paid ordinary shares at $0.001 each to raise $10,250
- The issue of 10,980,000 fully paid ordinary shares at $0.025 each to raise $274,500
- The issue of 3,000,000 fully paid ordinary shares at $0.10 each to raise $300,000.

Total shares on issue at 30 June 2008 are 47,826,207.

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.

DIRECTORS' REPORT (cont'd)

EVENTS SUBSEQUENT TO BALANCE DATE

Other than any matters described in Note 27 to these financial statements, there has not arisen in the interval between the end of the year 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 Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

LIKELY DEVELOPMENTS

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

Further information about likely developments in the operations of the Consolidated Entity 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 Consolidated Entity.

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 has entered into a contract of employment with its Managing Director. The employment contract outlines the components of compensation and is reviewed on an annual basis. Refer to Note 18 for details on the financial impact in future periods resulting from firm commitments arising from this employment contract.

Details of the nature and amount of each major element of the remuneration of each director of the Company for the year are:

		SHORT TERM	POST EMPLOYMENT	SHARE BASED PAYMENTS	
	Year	Salary / fees $	Superannuation benefits $	Options[1] $	Total $
Directors					
Mr N Clark	2008	-	-	18,792	18,792
	2007	-	-	-	-
Mr G Xu	2008	11,468	1,032	-	12,500
	2007	-	-	-	-
Ms A McCleary	2008	-	-	9,396	9,396
	2007	-	-	-	-
Mr W Zeng	2008	-	-	9,396	9,396
	2007	-	-	-	-
Mr P Dillon	2008	-	-	-	-
	2007	-	-	-	-
Mr N Li	2008	-	-	-	-
	2007	-	-	-	-
Mr A Webster Smith	2008	-	-	-	-
	2007	-	-	-	-
Total compensation, key management personnel	**2008**	**11,468**	**1,032**	**37,584**	**50,084**
Total compensation, key management personnel	**2007**	**-**	**-**	**-**	**-**

1. The fair value of the options is calculated at the date of grant using a Black-Scholes valuation model and allocated to each reporting period evenly over the period from grant date to vesting date. Since all options vested during the reporting period the value disclosed is the fair value of the options. Market conditions were not taken into account within the valuation model as the Company is not listed on the ASX.

DIRECTORS' REPORT (cont'd)

DIRECTORS' REMUNERATION (cont'd)

The following factors and assumptions were used in determining the fair value of the options on grant date:

Grant date	Expiry Date	Fair value per option	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
13 May 2008	31 May 2012	0.9396 cents	$0.30	$0.07	55.00%	7.00%	0.00%

OPTIONS

Options granted

During or since the end of the year, the Company granted the following options over unissued ordinary shares:

Class	Expiry Date	Exercise Price	Date Granted	Number of Options
Director Options	31 May 2012	$0.30	13 May 2008	4,000,000
Unlisted Options	31 May 2012	$0.30	13 May 2008	900,000

Unissued shares under option

At the date of this report, unissued ordinary shares of the Company under option are:

Class	Expiry Date	Exercise Price	Number of Options
Director Options	31 May 2012	$0.30	4,000,000
Unlisted Options	31 May 2012	$0.30	900,000

None of these options were exercised during the financial year. These options do not entitle the holder to participate in any share issue of the Company or any other entity.

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	Options
Mr N Clark	500,000	2,000,000
Mr G Xu[1]	13,596,207	-
Ms A McCleary[2]	250,000	1,000,000
Mr W Zeng	250,000	1,000,000

1. Includes 8,010,000 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. 5,586,207 shares are held indirectly by Chen & Xing Pty Ltd as trustee for the Gang Xu Super Fund Account of which Mr Xu is a director and beneficiary.
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.

DIRECTORS' REPORT (cont'd)

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 6 of the financial report.

Dated at Perth, Western Australia this 24th day of October 2008

Signed in accordance with a resolution of the directors:

Gang Xu
Managing Director

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
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ABN 79 112 284 787

24 October 2008

The Directors
Dragon Energy Limited
79 Broadway
NEDLANDS WA 6009

Dear Sirs

DECLARATION OF INDEPENDENCE BY CHRIS BURTON TO THE DIRECTORS OF DRAGON ENERGY LIMITED

As lead auditor of Dragon Energy Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Dragon Energy Limited and the entity it controlled during the year.

Your faithfully,

C Burton

Chris Burton
Director

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
Perth, Western Australia.

INCOME STATEMENTS
For the year ended 30 June 2008

	Note	CONSOLIDATED 2008 $	COMPANY 2008 $	COMPANY 2007 $
Finance Income		5,847	5,847	-
Corporate and administrative expenses		(357,059)	(357,059)	(124,056)
Depreciation expense		(17,440)	(17,440)	-
Exploration expenses		(54,426)	(54,426)	-
Occupancy expenses		(51,122)	(51,122)	-
Other	3	(5,533)	(5,485)	-
Loss before income tax		(479,733)	(479,685)	(124,056)
Income tax	5	-	-	-
Net loss for the year		(479,733)	(479,685)	(124,056)
Basic and diluted loss per share (cents)	19	(1.33)		

These Income Statements are to be read in conjunction with the accompanying notes.

DRAGON ENERGY

BALANCE SHEETS
as at 30 June 2008

	Note	CONSOLIDATED 2008 $	COMPANY 2008 $	COMPANY 2007 $
CURRENT ASSETS				
Cash and cash equivalents	6	109,459	97,660	821
Trade and other receivables	7	18,479	18,479	5,158
Other financial assets	8	794	794	-
Total Current Assets		128,732	116,933	5,979
NON CURRENT ASSETS				
Trade and other receivables	7	-	12,795	-
Other financial assets	8	-	-	-
Property, plant & equipment	9	56,885	56,885	6,984
Intangible assets	10	-	-	-
Total Non Current Assets		56,885	69,680	6,984
TOTAL ASSETS		185,617	186,613	12,963
CURRENT LIABILITIES				
Trade and other payables	11	56,901	56,901	9,196
Provisions	12	1,341	1,341	-
Loans and borrowings	13	132,306	132,306	127,723
Total Current Liabilities		190,548	190,548	136,919
NON CURRENT LIABILITIES				
Loans and borrowings	13	59,976	59,976	-
Total Non Current Liabilities		59,976	59,976	-
TOTAL LIABILITIES		250,524	250,524	136,919
DEFICIENCY IN NET ASSETS		**(64,907)**	**(63,911)**	**(123,956)**
EQUITY				
Issued capital	14	493,790	493,790	100
Reserves	15	45,093	46,040	-
Accumulated losses	16	(603,790)	(603,741)	(124,056)
TOTAL DEFICIENCY IN EQUITY		**(64,907)**	**(63,911)**	**(123,956)**

These Balance Sheets are to be read in conjunction with the accompanying notes.

CASH FLOWS STATEMENTS

For the year ended 30 June 2008

	Note	CONSOLIDATED 2008 $	COMPANY 2008 $	COMPANY 2007 $
Cash flows from operating activities				
Interest income		5,847	5,847	-
Cash payments in the course of operations		(365,033)	(360,569)	(120,003)
Net cash used in operating activities	22	(359,186)	(354,722)	(120,003)
Cash flows from investing activities				
Payments for property, plant & equipment		(1,570)	(1,570)	(6,998)
Proceeds from sale of property, plant & equipment		5,585	5,585	-
Payments for exploration expenditure – acquisition costs		(50,000)	(50,000)	-
Payment for acquisition of subsidiary		-	(1,372)	-
Net cash used in investing activities		(45,985)	(47,357)	(6,998)
Cash flows from financing activities				
Proceeds from the issue of share capital (net)		520,606	520,606	100
Payments for loan to controlled entity		-	(14,891)	-
Proceeds from borrowings		-	-	127,722
Repayment of borrowings		(6,797)	(6,797)	-
Net cash provided by financing activities		513,809	498,918	127,822
Net increase in cash held		**108,638**	**96,839**	**821**
Cash and cash equivalents at the beginning of the year	6	821	821	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	**109,459**	**97,660**	**821**

These Cash Flows Statements are to be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2008

Consolidated	Issued Capital $	Reserves $	Accumulated Losses $	Total Equity $
At 30 June 2007	100	-	(124,057)	(123,957)
Total recognised gains and losses for the year				
Loss for the year	-	-	(479,733)	(479,733)
Transactions with equity holders in their capacity as equity holders:				
Shares issued	608,336	-	-	608,336
Share issue costs	(114,646)	-	-	(114,646)
Equity-settled share-based payment	-	46,040	-	46,040
Foreign currency translation reserve	-	(947)	-	(947)
At 30 June 2008	**493,790**	**45,093**	**(603,790)**	**(64,907)**

Company	Issued Capital $	Reserves $	Accumulated Losses $	Total Equity $
Balance as at 1 June 2006	-	-	-	-
Total recognised gains and losses for the year				
Loss for the year	-	-	(124,056)	(124,056)
Transactions with equity holders in their capacity as equity holders				
Shares issued	100	-	-	100
Equity-settled share-based payment	-	-	-	-
At 30 June 2007	**100**	**-**	**(124,056)**	**(123,956)**
Total recognised gains and losses for the year:				
Loss for the year	-	-	(479,685)	(479,685)
Transactions with equity holders in their capacity as equity holders:				
Shares issued	608,336	-	-	608,336
Share issue costs	(114,646)	-	-	(114,646)
Equity-settled share-based payment	-	46,040	-	46,040
At 30 June 2008	**493,790**	**46,040**	**(603,741)**	**(63,911)**

The Statements of Changes in Equity are 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 incorporated and domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2008 comprises the Company and its subsidiaries (together referred to as the "Consolidated Entity").

The nature of the operations and principal activities of the Consolidated Entity are described in the Directors' Report.

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 24 October 2008.

Basis of measurement

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

Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Consolidated Entity.

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 27), the Company raised a further $263,330 as equity;
- Subsequent to balance date (refer Note 27), the Company entered into an agreement to acquire a phosphate project as the basis for a planned listing on the Australian Securities Exchange ("ASX"). The Company also entered into an agreement, subject to certain conditions, for an investor to invest $5,000,000 in Dragon Energy, as a cornerstone investor to its proposed ASX listing.
- The Company has progressed plans for its ASX listing and raised further equity in the process.

Based on the above, the directors are confident that the Company and Consolidated Entity will be able to continue operations into the foreseeable future as going concerns.

Use of estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Consolidated Entity.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are outlined below:

- *Share-based payment transactions:* The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined through an option valuation model, taking into account the terms and conditions upon which the instruments were granted – refer Note 24 Share Based Payments.
- *Exploration expenditure:* The write-off and carrying forward of exploration acquisition costs is based on an assessment of an area of interest's viability and/or the existence of economically recoverable reserves.
- *Estimation of useful lives of assets:* The estimation of the useful lives of assets has been based on historical experience. The condition of the assets is assessed at least once per year and considered against the remaining useful life. Depreciation charges are included in Note 9.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all entities in the Consolidated Entity.

Principles of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Consolidated Entity. Control exists when the Consolidated Entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

In the Company's financial statements, investments in subsidiaries are carried at cost.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Consolidated Entity at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency (cont'd)

Foreign operations (cont'd)

The income and expenses of foreign operations in hyperinflationary economies are translated to Australian dollars at the exchange rate at the reporting date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, its financial statements for the current period are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

Foreign currency translation differences arising on translation of foreign operations are recognised directly in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

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 Consolidated Entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Consolidated Entity's contractual rights to the cash flows from the financial assets expire or if the Consolidated Entity 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 Consolidated Entity commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Consolidated Entity'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.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Consolidated Entity and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

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

- Plant and Equipment 33%
- Fixtures and Fittings 25%
- Motor Vehicles 25%

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries or other business combinations. Goodwill represents the excess of the cost of the acquisition over the Consolidated Entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is measured at cost less accumulated impairment losses.

Exploration and evaluation

Exploration and evaluation costs are written off in the year they are incurred apart from acquisition costs which are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Where an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated acquisition costs in respect of that area are written off in the financial period the decision is made.

Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.
Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production.

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 non-financial assets 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

Interest income

Interest income is recognised as it accrues.

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently at amortised cost less any impairment losses recognised.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

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.

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.

Leases

Leases of property, plant and equipment where the Consolidated Entity, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Payables

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

Loans and borrowings

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

Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Share-based payments

The Consolidated Entity provides benefits to employees (including Directors) of the Consolidated Entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions"). The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using Black-Scholes or Binomial option pricing models.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Consolidated Entity, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

Earnings per share

The Consolidated Entity 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 year.

New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations applicable to the Company were available for early adoption but have not been applied by the Consolidated Entity and the Company in these financial statements:

- Revised AASB 101 Presentation of Financial Statements introduces a 'statement of comprehensive income'. It is applicable to the Consolidated Entity for the Group's 30 June 2010 Financial Statements and is expected to impact disclosures within the Financial Report.
- Revised AASB 123 Borrowing Costs become applicable for 30 June 2010 Financial Statements. This would not have affected the Consolidated Entity in the current financial year.
- Revised AASB 127 Consolidated and Separate Financial Statements will be mandatory for 30 June 2010 Financial Statements. The Consolidated Entity has not yet determined the potential effect of the revised standard on the Group's Financial Report.
- AASB 2008-1 Amendments to Australian Accounting Standard – Share-Based Payment: Vesting Conditions and Cancellations changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Consolidated Entity's 30 June 2010 Financial Statements. This would not have affected the Group in the current financial year.
- Improvements to International Reporting Standards – cost of an investment in subsidiary, jointly controlled entity or associate. The Consolidated Entity has not yet determined the potential impact of the revised standard on the Consolidated Entity's Financial Report.

None of the other standards, amendments to standards or interpretations are expected to have a financial impact on the Company or Consolidated Entity. AASB 3 "Business Combinations (Revised)" and AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 are standards which will only be required to be adopted prospectively on adoption for the year ended 30 June 2010, and are not expected to have a financial effect on current reported amounts.

Adoption of new accounting standard

The Company has adopted AASB 7 *Financial Instruments; Disclosures* and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the entity.

Determination of fair values

A number of the Consolidated Entity'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 33%
- Fixtures and Fittings 25%
- Motor Vehicles 25%

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

Determination of fair values (cont'd)

Depreciation (cont'd)

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.

Comparative information

The Company was incorporated on 1 June 2006. Accordingly the comparative information is for the period from incorporation to 30 June 2007. The Company did not have any subsidiaries during the period ended 30 June 2007 and therefore no comparative information applies to the Consolidated Entity.

2. FINANCIAL RISK MANAGEMENT

Overview

The Company and Consolidated Entity have exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- foreign currency risk
- interest rate risk

This note presents information about the Company's and Consolidated Entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report, and in Note 17 (Financial Instruments Disclosure).

Risk management procedures are utilised by the Company to identify and analyse the risks faced by the Company and Consolidated Entity, on a transaction by transaction basis. Accordingly, financial risks are continually reviewed to reflect changes in market conditions and the Company's and consolidated entities activities. These procedures are not yet documented in a separate policy.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Consolidated Entity's trade receivables. For the Company it arises from receivables due from controlled entities.

Trade and other receivables

The Company and the Consolidated Entity's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company and the Consolidated Entity do not presently have customers and consequently does not have credit exposure to outstanding receivables. Trade and other receivables represent GST refundable from the Australian Taxation Office.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by continuously monitoring budgeted and actual cash flows. Refer to Note 17 for maturities of financial liabilities.

2. FINANCIAL RISK MANAGEMENT (cont'd)

Foreign currency risk

The Consolidated Entity is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the consolidated entities, primarily the Australian dollar (AUD), but also the Hong Kong Dollar (HKD) and the Chinese Renmenbi (CNY). The currencies in which these transactions primarily are denominated are AUD and HKD.

In respect of monetary assets and liabilities denominated in foreign currencies, the Consolidated Entity ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Consolidated Entity's investment in subsidiary is not hedged as that currency position is considered to be long-term in nature.

The Board of Directors believes the balance date risk exposures are representative of the risk exposure inherent in financial instruments. Refer to Note 17 for exposure to foreign currency risk.

Interest rate risk

The Company is not materially exposed to changes in market interest rates. A 1% variation in interest rates would result in interest revenue changing by $1,094 (2007: $977) based on year-end cash balances, assuming all other variables remain unchanged.

Capital management

When managing capital, the Board's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Board also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Board is constantly adjusting the capital structure to take advantage of favourable costs of capital or high return on assets. As the market is constantly changing, management may issue new shares or sell assets to reduce debt.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position although there is no formal policy regarding gearing levels.

The Consolidated Entity is not subject to any externally imposed capital requirements.

The Company has no formal financing and gearing policy or criteria during the year having regard to the early status of its development and low level of activity. This position has not changed from the previous year.

3. OTHER EXPENSES

	CONSOLIDATED	COMPANY	
	2008	2008	2007
	$	$	$
Foreign currency losses	1,995	2,017	-
Impairment of goodwill	3,538	-	-
Provision for non-recovery of loans to controlled entity	-	2,096	-
Provision for diminution of investment in controlled entity	-	1,372	-
	5,533	5,485	-

4. AUDITOR'S REMUNERATION

Audit services:

	CONSOLIDATED 2008 $	COMPANY 2008 $	COMPANY 2007 $
Auditor of the Company			
BDO Kendalls Audit & Assurance (WA) Pty Ltd			
- audit and review of financial reports	6,095	6,095	3,000

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

	CONSOLIDATED	COMPANY	
5. TAXATION	**2008 $**	**2008 $**	**2007 $**
(a) Income tax expense	-	-	-
(b) Numerical reconciliation between tax expense and pre-tax net loss			
Loss before income tax expense	(479,733)	(479,685)	(124,056)
Income tax benefit calculated at rates noted in (d) below	(143,920)	(143,906)	(37,217)
Tax effect on amounts which are not tax deductible:			
Sundry amounts	12,337	11,687	240
Deferred tax asset not brought to account	131,583	132,219	36,977
Income tax expense	-	-	-
(c) Deferred tax assets not brought to account			
Unused tax losses	174,529	174,536	36,977
Timing differences	402	1,031	-
Capital raising costs in equity	25,486	25,486	-
Potential at 30%	200,417	201,053	36,977

(d) Tax Rates

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

6. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	109,459	97,660	821

The Consolidated Entity's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 17.

7. TRADE AND OTHER RECEIVABLES

Current			
Sundry Receivables	18,479	18,479	5,158
Non-Current			
Unsecured loan to subsidiary	-	14,891	-
Less: Provision for non-recovery of loan	-	(2,096)	-
	-	12,795	-

The Consolidated Entity's exposure to credit and currency risks and impairment losses related to trade and receivables are disclosed in Note 17.

8. OTHER FINANCIAL ASSETS

Current			
Prepayments	794	794	-
Non-Current			
Investment in subsidiary:			
Shares in Dragon Energy (China) Limited (100% owned) – at cost	-	1,372	-
Provision for diminution in value of investment	-	(1,372)	-
	-	-	-

DRAGON ENERGY

9. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED ENTITY AND COMPANY			
	Furniture & Fixtures	Plant & Equipment	Motor Vehicles	Total $
Year ended 30 June 2008				
At 1 July 2007, net of accumulated depreciation	1,088	5,896	-	6,984
Additions	-	1,570	71,355	72,925
Disposals	(870)	(4,714)	-	(5,584)
Depreciation charge for the year	(218)	(1,613)	(15,609)	(17,440)
At 30 June 2008, net of accumulated depreciation	-	1,139	55,746	56,885
At 30 June 2008				
Cost	-	1,570	71,355	72,925
Accumulated depreciation	-	(431)	(15,609)	(16,040)
Net carrying amount	-	1,139	55,746	56,885
Year ended 30 June 2007				
At 1 July 2006, net of accumulated depreciation	-	-	-	-
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

10. INTANGIBLE ASSETS

	CONSOLIDATED	COMPANY	
	2008 $	2008 $	2007 $
Goodwill, at cost			
Balance at 1 July	-	-	-
Acquisitions through business combinations	3,538	-	-
Impairment loss	(3,538)	-	-
	-	-	-

Impairment testing was performed as at 30 June 2008 and an impairment loss of $3,538 was recognised in other expenses the income statement.

11. TRADE AND OTHER PAYABLES

	CONSOLIDATED 2008 $	COMPANY 2008 $	COMPANY 2007 $
Trade creditors	41,791	41,791	-
Other creditors and accruals	15,110	15,110	9,196
	56,901	56,901	9,196

12. PROVISIONS

	CONSOLIDATED 2008 $	COMPANY 2008 $	COMPANY 2007 $
Liability for employee benefits	1,341	1,341	-

13. 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 17.

Current			
Unsecured loan	123,259	123,259	127,723
Finance lease liabilities	9,047	9,047	-
	132,306	132,306	127,723
Non-Current			
Finance lease liabilities	59,976	59,976	-
	59,976	59,976	-

Terms of loans and borrowings

Unsecured loan

This unsecured loan does not bear interest and is repayable within seven business days of the listing of the Company on ASX. The loan will not be recalled should it cause the Company financial distress, or render it insolvent.

Finance lease liabilities

The finance lease liabilities are secured by the leased assets, as in the event of default, the assets revert to the lessor.

Finance lease liabilities of the Company and the Consolidated Entity are payable as follows:

At 30 June 2008	**Consolidated**			**Company**		
	Minimum lease payments 2008 $	**Interest 2008 $**	**Principal 2008 $**	**Minimum lease payments 2008 $**	**Interest 2008 $**	**Principal 2008 $**
Less than one year	15,507	6,460	9,047	15,507	6,460	9,047
Between one and five years	70,295	10,319	59,976	70,295	10,319	59,976
	85,802	16,779	69,023	85,502	16,779	69,023

As at 30 June 2007 there were no finance liabilities.

14. ISSUED CAPITAL	**CONSOLIDATED 2008 $**	**COMPANY 2008 $**	**COMPANY 2007 $**
47,826,207 (2007: 10,000) fully paid ordinary shares	493,790	493,790	100

Movements during the year:	**2008 Number of Shares**	**2007 Number of Shares**	**2008 $**	**2007 $**
Balance at beginning of the year	10,000	-	100	-
Shares issued upon incorporation	-	10,000	-	100
Shares issued on 10 September 2007	23,586,207	-	23,586	-
Shares issued on 5 October 2007	10,250,000	-	10,250	-
Shares issued on 11 October 2007	10,980,000	-	274,500	-
Shares issued on 12 December 2007	3,000,000	-	300,000	-
Share issue costs	-	-	(114,646)	-
Balance at end of the year	47,826,207	10,000	493,790	100

14. ISSUED CAPITAL (cont'd)

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.

Options

Options granted

During or since the end of the year, the Company granted the following options over unissued ordinary shares:

Class	Expiry Date	Exercise Price	Date Granted	Number of Options
Director Options	31 May 2012	$0.30	13 May 2008	4,000,000
Unlisted Options	31 May 2012	$0.30	13 May 2008	900,000

At the date of this report, unissued ordinary shares of the Company under option are:

Class	Expiry Date	Exercise Price	Number of Options
Director Options	31 May 2012	$0.30	4,000,000
Unlisted Options	31 May 2012	$0.30	900,000

These options do not entitle the holder to participate in any share issue of the Company or any other entity.

No options were exercised during the year.

15. RESERVES

	CONSOLIDATED 2008 $	COMPANY 2008 $	COMPANY 2007 $
Share based payments reserve	46,040	46,040	-
Foreign currency translation reserve	(947)	-	-
	45,093	46,040	-

Share- based payments reserve

This reserve is used to record the value of equity-settled share-based payments provided to employees and directors as part of their remuneration. Refer to Note 24 for further details of share-based payments.

Foreign currency translation reserve

This reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

16. ACCUMULATED LOSSES

	CONSOLIDATED 2008 $	COMPANY 2008 $	COMPANY 2007 $
Accumulated losses at the beginning of the year	(124,056)	(124,056)	-
Loss for the year	(479,685)	(479,685)	(124,056)
Accumulated losses at the end of the year	(603,790)	(603,741)	(124,056)

17. FINANCIAL INSTRUMENTS DISCLOSURE

Credit risk

Exposure to credit risk

The carrying amount of the Consolidated Entity and the Company's financial assets represents the maximum credit exposure. The Consolidated Entity and the Company's maximum exposure to credit risk at the reporting date was:

	Consolidated Carrying Amount 2008 $	Company Carrying Amount 2008 $	Company Carrying Amount 2007 $
Cash and cash equivalents	109,459	97,660	821
Trade and other receivables	18,479	31,274	5,158
	127,938	128,934	5,979

Trade and other receivables represent GST refundable from the Australian Taxation Office. Consequently, the Consolidated Entity was not exposed to credit risk for trade receivables at reporting date.

Liquidity risk

The following are the contractual maturities of financial liabilities:

Consolidated

30 June 2008	Carrying amount	Contractual cash flows	1 year	2-5 years
Finance lease liabilities	69,023	(85,502)	(15,507)	(70,295)
Unsecured loan	123,259	(123,259)	(123,259)	-
Trade and other payables	56,901	(56,901)	(56,901)	-
	249,183	(265,662)	(195,666)	(70,295)

Company

30 June 2008	Carrying amount	Contractual cash flows	1 year	2-5 years
Finance lease liabilities	69,023	(85,502)	(15,507)	(70,295)
Unsecured loan	123,259	(123,259)	(123,259)	-
Trade and other payables	56,901	(56,901)	(56,901)	-
	249,183	(265,662)	(195,666)	(70,295)

30 June 2007	Carrying amount	Contractual cash flows	1 year	2-5 years
Unsecured loan	127,723	(127,723)	-	(127,723)
Trade and other payables	9,196	(9,196)	(9,196)	-
	136,919	(136,919)	(9,196)	(127,723)

17. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Foreign currency risk

Exposure to foreign currency risk

The Consolidated Entity did not have any trade receivables, trade payables or loans and borrowings denominated in a foreign currency at balance date. Consequently, the Consolidated Entity was not exposed to foreign currency risk at reporting date.

The parent entity carries an inter-company loan with its subsidiary (refer Note 7). The loan is denominated in the functional currency of the subsidiary (HKD), and is translated at reporting date at the prevailing spot rates through the income statement. To the extent appropriate, the parent entity has provided for the non-recovery of the loan. The net carrying value (in AUD) of the loan in the financial statements of the parent entity (after provision) at 30 June 2008 is $12,795 [2007: $nil].

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2008 $	2007 $	2008 $	2007 $
CNY	6.5413	-	6.6002	-
HKD	7.3296	-	7.4555	-

Interest rate risk

The Consolidated Entity and the Company did not have any variable rate interest-bearing financial instruments at balance date. Consequently, the Consolidated Entity and Company were not exposed to interest rate risk at reporting date.

The Consolidated Entity and the Company are not materially exposed to changes in market interest rates. A 1% variation in interest rates would result in interest revenue changing by $10,946 and $9,776 respectively (2007: nil and $82 respectively) based on year-end cash balances, assuming all other variables remain unchanged.

Fair value of financial instruments

The fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models based on estimated future cash flows. The Directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

18. COMMITMENTS

Service contracts

The Company has entered into an employment agreement with Mr Gang Xu to act as its Managing Director, under which Mr Xu is paid $100,000 per annum (inclusive of superannuation). At 30 June 2008, the unexpired portion of the term of the agreement amounts to $487,500.

Exploration Project Commitment

Subsequent to balance date, the Company entered into an agreement with rights to acquire an interest in a phosphate project (refer Note 27). Under the terms of this agreement, subject to the Company being admitted to the Official List of the ASX, Dragon Energy has the following financial commitments:

a) a cash payment of $200,000 to the owners of the project; and
b) commitment of a minimum of $1,200,000 within 12 months of listing on ASX.

The agreement also provides the Company with an option to proceed further beyond the commitments noted above to acquire 100% interests in the phosphate rights to the project.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

19. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share at 30 June 2008 was based on the loss attributable to ordinary shareholders of $479,733 and a weighted average number of ordinary shares outstanding during the year of 36,019,111 shares calculated as follows:

Loss attributable to ordinary shareholders	**CONSOLIDATED 2008 $**	**COMPANY 2007 $**
Net loss for the year	(479,733)	(124,056)

Weighted average number of ordinary shares	**Number 2008**	**Number 2007**
Balance at beginning of year	10,000	-
Effect of shares issued on 1 June 2006	-	10,000
Effect of shares issued on 10 September 2007	18,946,297	-
Effect of shares issued on 5 October 2007	7,533,470	-
Effect of shares issued on 11 October 2007	7,890,000	-
Effect of shares issued on 12 December 2007	1,639,344	-
	36,019,111	10,000

20. SEGMENT INFORMATION

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

21. KEY MANAGEMENT PERSONNEL DISCLOSURES

Details of key management personnel

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

Directors

Mr Nigel Clark	Non-Executive Chairman – appointed 5 October 2007
Mr Gang Xu	Managing Director
Ms Alice McCleary	Non-Executive Director – appointed 5 October 2007
Mr Wenle Zeng	Non-Executive Director – appointed 24 July 2007
Mr Peter Dillon	Non-Executive Director – 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

Executives

There were no executives during the 2007 or 2008 reporting periods.

21. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

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 year are:

		SHORT TERM	POST EMPLOYMENT	SHARE BASED PAYMENTS	
	Year	**Salary / fees $**	**Superannuation benefits $**	**Options $**	**Total $**
Directors					
Mr N Clark	2008	-	-	18,792	18,792
	2007	-	-	-	-
Mr G Xu	2008	11,468	1,032	-	12,500
	2007	-	-	-	-
Ms A McCleary	2008	-	-	9,396	9,396
	2007	-	-	-	-
Mr W Zeng	2008	-	-	9,396	9,396
	2007	-	-	-	-
Mr P Dillon	2008	-	-	-	-
	2007	-	-	-	-
Mr N Li	2008	-	-	-	-
	2007	-	-	-	-
Mr A Webster Smith	2008	-	-	-	-
	2007	-	-	-	-
Total compensation, key management personnel	**2008**	**11,468**	**1,032**	**37,584**	**50,084**
Total compensation, key management personnel	**2007**	**-**	**-**	**-**	**-**

Other key management personnel transactions with the Company

A number of key management personnel, 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.

During the financial year, Mr. Xu purchased $5,585 of property, plant and equipment from the Company. The items were purchased at their written down value as at 30 June 2008. The terms and conditions of those transactions were no more favorable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

During the previous financial year, the Company borrowed $127,723 from Mr. Xu 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. During the current financial year, the Company borrowed a further $43,307 from Mr. Xu and $47,770 of the loan was repaid to Mr. Xu.

There were no other key management personnel transactions during the 2007 or 2008 financial years.

21. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

Options and rights over equity instruments

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

	Held at 1 July 2007	Granted as compensation	Exercised	Other changes	Held at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
Directors							
Mr N Clark	-	2,000,0000	-	-	2,000,000	2,000,000	2,000,000
Mr G Xu	-	-	-	-	-	-	-
Ms A McCleary	-	1,000,000	-	-	1,000,000	1,000,000	1,000,000
Mr W Zeng	-	1,000,000	-	-	1,000,000	1,000,000	1,000,000
Mr P Dillon	-	-	-	-	-	-	-
Mr N Li	-	-	-	-	-	-	-
Mr A Webster-Smith	-	-	-	-	-	-	-

	Held at 1 Jun 2006	Granted as compensation	Exercised	Other changes	Held at 30 June 2007	Vested during the year	Vested and exercisable at 30 June 2007
Directors							
Mr G Xu	-	-	-	-	-	-	-
Mr P Dillon	-	-	-	-	-	-	-
Mr N Li	-	-	-	-	-	-	-
Mr A Webster-Smith	-	-	-	-	-	-	-

No options held by key management personnel are vested but not exercisable at 30 June 2007 or 2008.

Movements in shares

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

2008	Held at 30 Jun 2007	Held at date of appointment	Purchases	Received on exercise of options	Other changes	Held at date of resignation	Held at 30 Jun 2008
Directors							
Mr N Clark	N/A	-	500,000	-	-	N/A	500,000
Mr G Xu	10,000	N/A	13,586,207	-	-	N/A	13,596,207
Ms A McCleary	N/A	-	250,000	-	-	N/A	250,000
Mr W Zeng	N/A	-	250,000	-	-	N/A	250,000
Mr P Dillon	-	N/A	-	-	-	-	N/A
Mr Naiming Li	-	N/A	-	-	-	-	N/A
Mr A Webster-Smith	-	N/A	-	-	-	-	N/A

2007	Held at 1 Jun 2006	Held at date of appointment	Purchases	Received on exercise of options	Other changes	Held at date of resignation	Held at 30 Jun 2007
Directors							
Mr G Xu	-	N/A	10,000	-	-	N/A	10,000
Mr P Dillon	N/A	-	-	-	-	N/A	-
Mr Naiming Li	-	N/A	-	-	-	N/A	-
Mr A Webster-Smith	-	N/A	-	-	-	N/A	-

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

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

22. RECONCILIATION OF CASH FLOWS USED IN OPERATING ACTIVITIES

	CONSOLIDATED 2008 $	COMPANY 2008 $	COMPANY 2007 $
Cash flows from operating activities			
Loss for the year	(479,733)	(479,685)	(124,056)
Adjustments for:			
Depreciation	17,440	17,440	-
Provision for non-recovery of loan to controlled entity	-	2,096	-
Provision for diminution of investment in controlled entity	-	1,372	-
Exploration expenditure written off	50,000	50,000	-
Share based payments expense	46,040	46,040	-
Foreign exchange gain/loss	(947)	-	-
Operating loss before changes in working capital and provisions	(367,200)	(362,736)	(124,056)
Change in trade and other receivables	(13,322)	(13,322)	(5,157)
Change in trade and other payables	20,789	20,790	9,210
Change in prepayments	(794)	(794)	-
Change in provisions	1,341	1,341	-
Net cash used in operating activities	(359,186)	(354,722)	(120,003)

Non-cash investing and financing activities

During the year, the Company acquired $71,355 of property, plant and equipment by means of finance leases. Refer Note 13 for further details of these finance lease liabilities. Details of options granted to promoters and directors for no cash consideration are disclosed in Note 24.

23. CONTINGENT LIABILITIES

The Company has no contingent liabilities at balance date.

24. SHARE BASED PAYMENTS

The Company granted a total of 900,000 options to promoters on 13 May 2008. In addition, shareholders approved the following grant of options to directors on 20 March 2008:

Name	Number
Mr N Clark	2,000,000
Ms A McCleary	1,000,000
Mr W Zeng	1,000,000

Each option is convertible to one ordinary share and is exercisable at $0.30 each on or before 31 May 2012. All options vested immediately. There are no voting or dividend rights attaching to the options.

The fair value of the options was calculated at the date of shareholder approval using a Black-Scholes valuation model and fully expensed in the reporting period. The following table gives the assumptions made in determining the fair value of options on the date of grant:

Grant date	Expiry Date	Fair value per option	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
13 May 2008	31 May 2012	0.9396 cents	$0.30	$0.07	55.00%	7.00%	0.00%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

Total expense recognised in corporate and administrative expenses was $37,584 (2007: nil) in respect of the 4,000,000 options granted to directors. An amount of $8,456 (2007: nil) was recognised in issued capital (as share issue costs) in respect of the 900,000 options granted to promoters.

25. ACQUISITION OF SUBSIDIARY

Dragon Energy (China) Limited

On 21 February 2008, Dragon Energy Ltd acquired 100% of the issued capital in Dragon Energy (China) Limited for $1,372 satisfied in cash.

The acquisition had the following effect on the Consolidated Entity's assets and liabilities:

	Recognised values on acquisition	Fair value adjustments	Pre-acquisition carrying amounts
Fair value of assets and liabilities acquired:			
Cash and cash equivalents	12,044	-	12,044
Loans and borrowings	(14,210)	-	(14,210)
Net identifiable assets and liabilities	(2,166)	-	(2,166)
Consideration, satisfied in cash	1,372		
Cash acquired	(12,044)		
Net cash inflow	**(10,672)**		

The excess of the consideration over the fair value of the assets and liabilities acquired has been recognised as goodwill of $3,538.

From the date of acquisition, Dragon Energy (China) Limited contributed $22 loss to the net loss of the Consolidated Entity. If the acquisition had been effected on 1 July 2007, Dragon Energy (China) Limited would have contributed $3,516 loss.

26. CONTROLLED ENTITIES

	Country of Incorporation	Entity interest 2008	Entity interest 2007
Parent entity			
Dragon Energy Ltd	Australia	-	-
Subsidiary			
Dragon Energy (China) Limited	Hong Kong	100%	-

In the financial statements of the Company, the investment in the subsidiary is measured at cost.

27. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date:

1. the Company issued 2,633,300 fully paid ordinary shares at $0.10 per share as seed capital shares to raise $263,330.
2. the Company entered into an agreement with rights to acquire a phosphate project in Queensland. Under the terms of this agreement, a non refundable deposit of $100,000 has been paid. Upon the Company being admitted to the Official List of the Australian Securities Exchange ("ASX"), a further $200,000 is payable. The Company has a $1.2m exploration expenditure commitment under this agreement which is conditional on the Company's listing on ASX.
3. the Company entered into an agreement with a Chinese mining group in which it will invest $5,000,000 in Dragon Energy as a cornerstone investor to its proposed listing on ASX. This agreement is conditional upon the investor obtaining the necessary regulatory approvals for the investment and due diligence.
4. the Company formally withdrew from an uranium exploration joint venture under which it had certain exploration commitments.

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

DIRECTORS' DECLARATION

In the opinion of the directors of Dragon Energy Ltd:

(a) the financial statements and notes are in accordance with the Corporations Act 2001, including:

 (i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2008 and of their performance, for the financial year ended on that date; and

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

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

(c) on the basis disclosed in Note 1, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the managing director and chief financial officer for the financial year ended 30 June 2008.

Signed in accordance with a resolution of the directors:

Dated at Perth, Western Australia this 24th day of October 2008.

Gang Xu
Managing Director

BDO Kendalls

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INDEPENDENT AUDITOR'S REPORT

To the members of Dragon Energy Limited.

We have audited the accompanying financial report of Dragon Energy Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the year's end or from time to time during the financial year.

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 controls 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 opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

(a) the financial report of Dragon Energy Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

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

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

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to the financial report which states that the Consolidated Entity incurred a net loss of $479,733 during the year ended 30 June 2008 and has a Net Asset Deficiency of $64,907 at that date These conditions indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and realise its assets and extinguish its liabilities other than in the normal course of business should the events identified in Note 1 (*Going Concern Basis*) not materialise.

BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls

C Burton

Chris Burton
Director

Perth, Western Australia
Dated 24th October 2008