



ABN 38 119 992 175

**HALF-YEAR FINANCIAL REPORT**  
**31 DECEMBER 2008**

---

**DRAGON ENERGY LTD**  
**ABN 38 119 992 175**

## **Half-Year Financial Report - 31 December 2008**

---

<b>Contents</b>	<b>Page</b>
Directors' Report	3
Auditor's Independence Declaration	4
Half-Year Financial Report	
Consolidated Income Statement	5
Consolidated Balance Sheet	6
Consolidated Statement of Cash Flows	7
Consolidated Statement of Changes in Equity	8
Condensed Notes to the Consolidated Financial Statements	9
Directors' Declaration	12
Independent Review Report	13

## DIRECTORS' REPORT

The directors present their report on the consolidated entity consisting of Dragon Energy Ltd and its controlled entity for the six months ended 31 December 2008 and the auditor's review report thereon:

### 1. Directors

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

Name	Period of directorship
Mr Jie Chen <i>Chairman</i>	Director since 18 December 2008
Mr Gang Xu <i>Managing Director</i>	Director since 1 June 2006
Mr Anthony Ho <i>Executive Director</i>	Director since 18 December 2008
Mr Qingyong Guo <i>Non-Executive Director</i>	Director since 18 December 2008
Mr Wenle Zeng <i>Non-Executive Director</i>	Director since 24 July 2007
Mr Nigel Bruce Clark <i>Non-Executive Director</i>	Appointed 5 October 2007, resigned 18 December 2008
Ms Alice McCleary <i>Non-Executive Director</i>	Appointed 5 October 2007, resigned 18 December 2008

### 2. Results

The loss of the consolidated entity for the half-year was \$192,905 (2007: \$204,727) after income tax of nil (2007: nil).

### 3. Review of Operations

The Company completed a busy half year to 31 December 2008 with the following activities leading to its ASX listing which took place in February 2009:

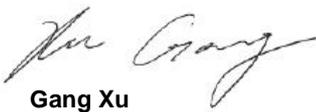
- A Phosphate Rights Option Agreement was finalised with MM Mining Pty Ltd and Summit Resources Limited (the "Vendors") to explore and mine phosphate in the Georgina Basin in Queensland. In February 2009, the Company made a payment of \$200,000 to the Vendors in accordance with the Phosphate Rights Option Agreement. Planning and budgetary preparation commenced during the period for a drilling programme on these projects scheduled for the first half of 2009;
- The Company raised \$5,000,000 as cornerstone seed investment by Shandong Taishan Sunlight Group Company Limited by the issue of 81,000,000 shares and 6,250,000 options exercisable at \$0.30 each before 31 May 2012; and
- The Company lodged a prospectus with the Australian Securities and Investments Commission and ASX on 23 December 2008 for the purpose of listing on ASX. In February 2009, the Company gained admission to the Official List of ASX after raising \$1,084,040 by the issue of 5,420,200 shares at 20 cents each pursuant to this prospectus.

### 4. Auditor's independence declaration under Section 307C of the Corporations Act 2001

The auditor's declaration is set out on page 4 and forms part of the directors' report for the six months ended 31 December 2008.

Dated at Perth, Western Australia, this 13<sup>th</sup> day of March 2009.

Signed in accordance with a resolution of the directors:



**Gang Xu**  
*Managing Director*



BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd  
128 Hay Street  
SUBIACO WA 6008  
PO Box 700  
WEST PERTH WA 6872  
Phone 61 8 9380 8400  
Fax 61 8 9380 8499  
aa.perth@bdo.com.au  
www.bdo.com.au

ABN 79 112 284 787

13 March 2009

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 half year ended 31 December 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 review; and
- any applicable code of professional conduct in relation to the review.

This declaration is in respect of Dragon Energy Limited and the entities it controlled during the period.

**Chris Burton**  
Director

*BDO Kendalls*

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



C O N S O L I D A T E D   I N C O M E   S T A T E M E N T  
for the six months ended 31 December 2008

---

	Note	2008 \$	2007 \$
Revenue from continuing operations		3,858	1,945
Exploration and evaluation expenses written off	7	(33,097)	-
Corporate and administrative expenses		(163,666)	(206,672)
<b>Loss before income tax</b>		<b>(192,905)</b>	<b>(204,727)</b>
Income tax		-	-
<b>Net loss for the period</b>		<b>(192,905)</b>	<b>(204,727)</b>
Basic loss per share			
Ordinary shares (cents)		<u>(0.34 cents)</u>	<u>(0.84 cents)</u>

Diluted loss per share is not shown as all potential ordinary shares on issue would decrease the loss per share and are thus not considered dilutive.

The consolidated income statement is to be read in conjunction with the accompanying notes.

---

C O N S O L I D A T E D   B A L A N C E   S H E E T  
as at 31 December 2008

	Note	31 December 2008 \$	30 June 2008 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		5,066,053	109,459
Trade and other receivables		15,025	18,479
Other financial assets		756	794
<b>Total Current Assets</b>		<u>5,081,834</u>	<u>128,732</u>
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment		47,706	56,885
Exploration and evaluation expenditure	7	100,000	-
<b>Total Non Current Assets</b>		<u>147,706</u>	<u>56,885</u>
<b>TOTAL ASSETS</b>		<u><b>5,229,540</b></u>	<u><b>185,617</b></u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		240,017	56,901
Provisions		5,364	1,341
Loans and borrowings		142,345	132,306
<b>Total Non Current Liabilities</b>		<u>387,726</u>	<u>190,548</u>
<b>NON-CURRENT LIABILITIES</b>			
Loans and borrowings		45,525	59,976
<b>Total Non Current Liabilities</b>		<u>45,525</u>	<u>59,976</u>
<b>TOTAL LIABILITIES</b>		<u><b>433,251</b></u>	<u><b>250,524</b></u>
<b>NET ASSETS/ (DEFICIENCY)</b>		<u><b>4,796,289</b></u>	<u><b>(64,907)</b></u>
<b>EQUITY</b>			
Issued capital	8	5,543,312	493,790
Reserves		49,672	45,093
Accumulated losses		(796,695)	(603,790)
<b>TOTAL EQUITY/ (DEFICIENCY)</b>		<u><b>4,796,289</b></u>	<u><b>(64,907)</b></u>

The consolidated balance sheet is to be read in conjunction with the accompanying notes.



C O N S O L I D A T E D   S T A T E M E N T   O F   C A S H   F L O W S  
for the six months ended 31 December 2008

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Cash payments in the course of operations	(155,623)	(164,560)
Interest received	3,858	1,945
<b>Net cash used in operating activities</b>	<b>(151,765)</b>	<b>(162,615)</b>
 <b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	-	(72,925)
Payments for exploration and evaluation assets	(100,000)	(45,455)
<b>Net cash used in investing activities</b>	<b>(100,000)</b>	<b>(118,380)</b>
 <b>Cash flows from financing activities</b>		
Proceeds from the issue of share capital (net)	5,204,865	579,012
Payments for loan	-	(235)
Proceeds from borrowings	35,883	104,423
Repayment of borrowings	(40,294)	(24,332)
<b>Net cash provided by financing activities</b>	<b>5,200,454</b>	<b>658,868</b>
 <b>Net decrease in cash held</b>	<b>4,948,689</b>	<b>377,873</b>
 <b>Cash and cash equivalents at the beginning of the period</b>	<b>109,459</b>	<b>821</b>
 Effects of exchange rate changes on cash and cash equivalents	7,905	(1,206)
 <b>Cash and cash equivalents at the end of the period</b>	<b>5,066,053</b>	<b>377,488</b>

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
for the six months ended 31 December 2008

<b>2008</b>	<b>Issued Capital \$</b>	<b>Reserves \$</b>	<b>Accumulated Losses \$</b>	<b>Total Equity \$</b>
<b>At 1 July 2008</b>	493,790	45,093	(603,790)	<b>(64,907)</b>
<i>Total recognised gains and losses for the period:</i>				
Loss for the period	-	-	(192,905)	(192,905)
<i>Transactions with equity holders in their capacity as equity holders:</i>				
Shares issued	5,268,830	-	-	5,268,830
Share issue costs	(219,308)	-	-	(219,308)
Foreign currency translation reserve	-	4,579	-	4,579
<b>At 31 December 2008</b>	<b>5,543,312</b>	<b>49,672</b>	<b>(796,695)</b>	<b>4,796,289</b>
<b>2007</b>	<b>Issued Capital \$</b>	<b>Reserves \$</b>	<b>Accumulated Losses \$</b>	<b>Total Equity \$</b>
<b>At 1 July 2007</b>	100	-	(124,056)	<b>(123,956)</b>
<i>Total recognised gains and losses for the period:</i>				
Loss for the period	-	-	(204,727)	(204,727)
<i>Transactions with equity holders in their capacity as equity holders:</i>				
Shares issued	608,336	-	-	608,336
Share issue costs	(39,746)	-	-	(39,746)
Foreign currency translation reserve	-	-	-	-
<b>At 31 December 2007</b>	<b>568,690</b>	<b>-</b>	<b>(328,783)</b>	<b>239,907</b>

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



## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

---

### 1. REPORTING ENTITY

Dragon Energy Ltd (the "Company") is a company domiciled in Australia. The consolidated interim financial report as at and for the six months ended 31 December 2008 covers the consolidated group of Dragon Energy Ltd and its subsidiary (together referred to as the "consolidated entity" or "Group").

The annual financial report of the consolidated entity as at and for the year ended 30 June 2008 is available upon request from the Company's registered office or may be viewed on the Company's website, [www.dragonenergy.com](http://www.dragonenergy.com).

### 2. STATEMENT OF COMPLIANCE

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated interim financial report has been prepared on the accruals basis and on an historical cost basis.

The interim financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the interim financial report be read in conjunction with the annual report for the year ended 30 June 2008.

This consolidated interim financial report was approved by the Board of Directors on 13 March 2009.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2008.

The Group has not elected to early adopt any new standards or amendments.

### 4. ESTIMATES

The preparation of the interim financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgments made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2008.

The ultimate recoupment of exploration and evaluation expenditure is dependent upon successful development and commercial exploitation, or alternatively, sale of the respective areas.

### 5. COMPARATIVE FIGURES

This is the first half year financial report issued by the Group since listing on the Australian Securities Exchange. The comparative figures have therefore not been subject to review.

### 6. SEGMENT REPORTING

The Company's exploration activities are predominantly located in Australia, with more than 90% of the consolidated entity's revenue from ordinary activities and assets relating to these operations.

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL  
STATEMENTS (cont'd)

	<b>31 December 2008</b>	<b>30 June 2008</b>
	<b>\$</b>	<b>\$</b>
<b>7. EXPLORATION AND EVALUATION EXPENDITURE</b>		
Exploration, evaluation and development costs carried forward in respect of areas of interest (net of amounts written off) (a)	<u><b>100,000</b></u>	<u>-</u>
<b>Reconciliation</b>		
Carrying amount at beginning of period	-	-
Expenditure during the period - exploration	33,097	54,426
Expenditure during the period - acquisitions	100,000	-
Expenditure written off	<u>(33,097)</u>	<u>(54,426)</u>
Carrying amount at end of period	<u><b>100,000</b></u>	<u>-</u>

(a) The ultimate recoupment of exploration and evaluation expenditure is dependent upon successful development and commercial exploitation, or alternatively, sale of the respective areas. During the six months ended 31 December 2008 the consolidated entity wrote off expenditure totalling \$33,097 (six months ended 31 December 2007: nil).

**8. ISSUED CAPITAL**

136,959,507 (30 June 2008: 47,826,207) fully paid ordinary shares	<u><b>5,543,312</b></u>	<u><b>493,790</b></u>
---	-------------------------	-----------------------

The following movements in issued capital occurred during the six months ended 31 December 2008:

	<b>Number of Shares</b>	<b>\$</b>
Balance 1 July 2008	47,826,207	493,790
Shares issued on 23 September 2008	1,918,300	191,830
Shares issued on 10 October 2008	715,000	71,500
Shares issued on 18 November 2008	5,500,000	5,500
Shares issued on 18 December 2008	81,000,000	5,000,000
Share issue costs	-	(219,308)
	<u>136,959,507</u>	<u>5,543,312</u>

The following movements in issued capital occurred during the six months ended 31 December 2007:

	<b>Number of Shares</b>	<b>\$</b>
Balance 1 July 2007	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)
	<u>47,826,207</u>	<u>493,790</u>

**Options**

The following options to subscribe for ordinary fully paid shares were outstanding at the end of the period:

<b>Class</b>	<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Number of Options</b>
Unlisted Options	31 May 2012	\$0.30	11,150,000

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

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL  
STATEMENTS (cont'd)

**8. ISSUED CAPITAL (cont'd)**

**Options (cont'd)**

The following options to subscribe for ordinary fully paid shares were granted during the six months ended 31 December 2008:

Class	Expiry Date	Exercise Price	Number of Options
Unlisted Options	31 May 2012	\$0.30	6,250,000

There were no options to subscribe for ordinary fully paid shares exercised during the six months ended 31 December 2008.

No options lapsed during the six months ended 31 December 2008.

**9. COMMITMENTS AND CONTINGENCIES**

The changes to the commitments and contingencies disclosed in the most recent annual report are specified below.

**Remuneration commitments**

The Company has entered into an employment agreement with Mr Gang Xu to act as its Managing Director, under which Mr Xu is paid \$160,000 per annum (exclusive of superannuation) from the date the Company is admitted to the Official List of ASX. At 31 December 2008, the unexpired portion of the term of the agreement amounts to \$480,000.

The Company has entered into an employment agreement with Mr Anthony Ho to act as an executive director/ chief financial officer, under which Mr Ho is paid \$80,000 per annum (exclusive of superannuation) from the date the Company is admitted to the Official List of ASX. At 31 December 2008, the unexpired portion of the term of the agreement amounts to \$240,000.

**Service contracts**

The Company has entered into a service agreement with Townshend York Pty Ltd ("Townshend York"), a company associated with Mr Ho, to provide company secretarial and accounting services in connection with the operations of the consolidated entity, under which Townshend York receives \$50,000 per annum. At 31 December 2008, the unexpired portion of the term of agreement amounts to \$100,000.

**Exploration Project Commitment**

The Company has entered into an agreement with rights to acquire an interest in a phosphate project. Under the terms of this agreement, the Company has a commitment of a minimum of \$1,200,000 within 12 months of 12 February 2009, being the date on which Dragon Energy received conditional approval for admission to the Official List of ASX. The agreement also provides the Company with an option to proceed further beyond this commitment to acquire a 100% interest in the phosphate rights to the project.

**10. RELATED PARTY TRANSACTIONS**

During the six months ended 31 December 2008, the Company borrowed \$35,883 from Mr Xu, which was subsequently repaid during the same period. At 31 December 2008, the outstanding loan balance amounts to \$123,259 (30 June 2008: \$123,259). The amount of \$123,259 was repaid subsequent to balance date on 21 January 2009.

**11. SUBSEQUENT EVENTS**

- On 23 December 2008, the Company lodged a prospectus with the Australian Securities and Investments Commission and ASX for the purpose of listing on ASX. Subsequent to balance date, the Company gained admission to the Official List of ASX after raising \$1,084,040 by the issue of 5,420,200 shares at 20 cents each pursuant to this prospectus.
- Subsequent to balance date, the Company made a payment of \$200,000 to the owner of the tenements the subject of an agreement with rights to acquire a phosphate project in Queensland.

There are no other events subsequent to balance date that would have a material financial effect on the financial statements for the six months ended 31 December 2008.

D I R E C T O R S ' D E C L A R A T I O N

---

In the opinion of the directors of Dragon Energy Ltd:

1. the financial statements and notes, set out on pages 5 to 11, are in accordance with the Corporations Act 2001, including:
  - (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the six months ended on that date; and
  - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001;
2. 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, Western Australia this 13<sup>th</sup> day of March 2009.

Signed in accordance with a resolution of the directors.



**Gang Xu**  
*Managing Director*



## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Dragon Energy Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Dragon Energy Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year.

#### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the consolidated entity are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Dragon Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

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

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Dragon Energy Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

**BDO Kendalls Audit & Assurance (WA) Pty Ltd**

BDO Kendalls

A handwritten signature in black ink that reads 'C Burton'.

**Chris Burton**

Director

Perth, Western Australia

Dated the 13<sup>th</sup> day of March 2009