



ABN 38 119 992 175

## HALF-YEAR FINANCIAL STATEMENTS

31 DECEMBER 2010

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

## **Half-Year Financial Statements 31 December 2010**

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## DIRECTORS' REPORT

The directors present their financial statements of Dragon Energy Ltd ("Dragon Energy") for the six months ended 31 December 2010 and the auditor's review report thereon:

### 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

### Review of Operations

Dragon Energy is a Perth-based exploration company backed by the Shandong Taishan Sunlight Group Company Limited ("Shandong Group"), one of China's leading private mining and resources group. The Company's focus is to build up and add value to a portfolio of quality resources projects. Preferred commodities are iron ore, manganese and coal. Current projects are based in Western Australia and Queensland but the Company will also consider quality projects outside of Australia.

During the half year to 31 December 2010, the Company has made meaningful progress towards its goal. Key activities undertaken included:

- Completing the acquisition of Rocklea and Nameless Projects in the Pilbara. The Rocklea Project has a JORC inferred resource of 63.1 million tonnes of iron ore at 53.4% Fe (60.4% caFe) (AusQuest ASX release 17 August 2009). The Nameless Project hosts CID and mineralised Marra Mamba Iron Formation with identified mineralisation over 12.5km strike length. The Company is evaluating data acquired on both projects and is designing an appropriate exploration program with the aim to increase mineral resource at Rocklea, and to identify a virgin resource at Nameless.
- Encouraging manganese and iron results derived from field reconnaissance and rock chip sampling at the Lee Steere Range Project NE of Wiluna. Completion of geophysical surveys and 3D modeling of the most promising mineralised outcrops. The Company is planning a follow up drilling programme.
- Farm-in with Altera Resources Ltd on 13 Exploration Permits for Coal applications in Queensland commenced July 2010. Initial consultant assessment of these permits completed and 7 permits were handed back to Altera. The remaining 6 permits are under review.
- Five WA exploration applications granted in January 2011.
- Rights issue and Option Entitlement completed on 24 February 2011 raising \$19,261,460 by way of issue of 64,046,667 Shares at \$0.30 per share and 47,460,245 Options at \$0.001 per option. Funds raised will be applied for acquisitions and planned exploration activities.

For more details on Company activities over the half year period, please refer to the Quarterly Reports and the ASX announcements made during the half year.

### Competent Person's Statement

The information in the report to which this statement is attached that relates to Exploration Results is based on information compiled by Mr Mark Hafer, who is a Member of The Australian Institute of Geoscientists. Mr Hafer is a full-time employee of the company. Mr Hafer has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Hafer consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

## DIRECTORS' REPORT (cont'd)

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

Section 307C of the Corporations Act 2011 requires our auditor, BDO Audit (WA) Pty Ltd, to provide the directors of the Company with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 5 and forms part of this director's report for the six months ended 31 December 2010.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to section 306(3) of the Corporations Act 2011.

A handwritten signature in black ink, appearing to read 'Gang Xu'.

**Gang Xu**  
**Managing Director**

Dated at Perth, Western Australia, this 24<sup>th</sup> day of February 2011

24<sup>th</sup> February 2011

Dragon Energy Limited  
The Board of Directors  
Suite 8  
1297 Hay Street  
West Perth WA 6005

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 2010, 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.



Chris Burton  
Director



BDO Audit (WA) Pty Ltd  
Perth, Western Australia



**STATEMENT OF COMPREHENSIVE INCOME**  
for the six months ended 31 December 2010

	Note	31 December 2010 \$	31 December 2009 \$
Revenue from continuing operations		64,155	80,498
Exploration and evaluation expenses written off	7	(252,443)	(790,432)
Corporate and administrative expenses		(451,994)	(345,146)
<b>Loss before income tax</b>		<b>(640,282)</b>	<b>(1,055,080)</b>
Income tax		-	-
<b>Net loss for the half year</b>		<b>(640,282)</b>	<b>(1,055,080)</b>
<b>Other Comprehensive Income</b>			
Foreign currency translation differences for foreign operations		-	(152)
<b>Other Comprehensive Income for the half year, net of tax</b>		<b>-</b>	<b>(152)</b>
<b>Total Comprehensive Income for the half year</b>		<b>(640,282)</b>	<b>(1,055,232)</b>
Basic loss per share			
Ordinary shares (cents)		(0.45 cents)	(0.74 cents)

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 statement of comprehensive income is to be read in conjunction with the accompanying notes.

**STATEMENT OF FINANCIAL POSITION**  
as at 31 December 2010

	Note	31 December 2010 \$	30 June 2010 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		1,980,485	3,437,285
Trade and other receivables		78,356	11,141
Held to maturity investments		51,163	50,088
Other financial assets		22,448	8,470
<b>Total Current Assets</b>		<u>2,132,452</u>	<u>3,506,984</u>
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment		71,222	80,177
Exploration and evaluation assets	7	<u>1,163,593</u>	<u>517,799</u>
<b>Total Non Current Assets</b>		<u>1,234,815</u>	<u>597,976</u>
<b>TOTAL ASSETS</b>		<u>3,367,267</u>	<u>4,104,960</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		27,136	125,539
Provisions		44,188	37,862
Loans and borrowings		<u>45,524</u>	<u>10,938</u>
<b>Total Current Liabilities</b>		<u>116,848</u>	<u>174,339</u>
<b>NON CURRENT LIABILITIES</b>			
Loans and borrowings		<u>-</u>	<u>39,920</u>
<b>Total Non Current Liabilities</b>		<u>-</u>	<u>39,920</u>
<b>TOTAL LIABILITIES</b>		<u>116,848</u>	<u>214,259</u>
<b>NET ASSETS</b>		<u><b>3,250,419</b></u>	<u><b>3,890,701</b></u>
<b>EQUITY</b>			
Contributed equity	8	6,580,885	6,580,885
Reserves		46,040	46,040
Accumulated losses		<u>(3,376,506)</u>	<u>(2,736,224)</u>
<b>TOTAL EQUITY</b>		<u><b>3,250,419</b></u>	<u><b>3,890,701</b></u>

The statement of financial position is to be read in conjunction with the accompanying notes.

**STATEMENT OF CHANGES IN EQUITY**  
for the six months ended 31 December 2010

<b>2010</b>	<b>Contributed Equity \$</b>	<b>Share based payment reserve \$</b>	<b>Foreign currency translation reserve \$</b>	<b>Accumulated Losses \$</b>	<b>Total Equity \$</b>
<b>At 1 July 2010</b>	<b>6,580,885</b>	<b>46,040</b>	-	<b>(2,736,224)</b>	<b>3,890,701</b>
<i>Total recognised gains and losses for the period:</i>					
Loss for the period	-	-	-	(640,282)	(640,282)
Foreign currency translation reserve	-	-	-	-	-
Total Comprehensive Income for the half year	-	-	-	(3,376,506)	3,250,419
<b>At 31 December 2010</b>	<b>6,580,885</b>	<b>46,040</b>	-	<b>(3,376,506)</b>	<b>3,250,419</b>
<b>2009</b>	<b>Contributed Equity \$</b>	<b>Share based payment reserve \$</b>	<b>Foreign currency translation reserve \$</b>	<b>Accumulated Losses \$</b>	<b>Total Equity \$</b>
<b>At 1 July 2009</b>	6,580,885	46,040	2,689	(1,205,465)	<b>5,424,149</b>
<i>Total recognised gains and losses for the period:</i>					
Loss for the period	-	-	-	(1,055,080)	(1,055,080)
Foreign currency translation reserve	-	-	(152)	-	(152)
Total Comprehensive Income for the half year	-	-	(152)	(1,055,080)	(1,055,232)
<b>At 31 December 2009</b>	<b>6,580,885</b>	<b>46,040</b>	<b>2,537</b>	<b>(2,260,545)</b>	<b>4,368,917</b>

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



**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 2010

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	<b>31 December 2010 \$</b>	<b>31 December 2009 \$</b>
<b>Cash flows from operating activities</b>		
Cash payments in the course of operations	(776,544)	(790,265)
Interest received	63,724	80,498
	<b>(712,820)</b>	<b>(709,767)</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(11,854)	(48,007)
Payments for exploration expenditure – acquisition costs	(555,142)	-
Payments for exploration expenditure – capitalised costs	(170,576)	-
Payments for acquisition of held to maturity investments	-	(67,695)
	<b>(737,572)</b>	<b>(115,702)</b>
<b>Cash flows from financing activities</b>		
Repayment of borrowings	(5,333)	(4,042)
	<b>(5,333)</b>	<b>(4,042)</b>
<b>Net (decrease) in cash held</b>	<b>(1,455,725)</b>	<b>(829,511)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>3,487,373</b>	<b>2,188,006</b>
Effects of exchange rate changes on cash and cash equivalents	-	(152)
	<b>2,031,648</b>	<b>1,358,343</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>2,031,648</b>	<b>1,358,343</b>

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

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 1. REPORTING ENTITY

Dragon Energy Ltd (the "Company") is a company domiciled in Australia. Dragon Energy Ltd is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

On 4 June 2010, the Company's wholly owned subsidiary Dragon Energy (China) Limited was deregistered in Hong Kong. At the date of deregistration, Dragon Energy (China) Limited comprised only the loan owing to the parent entity, Dragon Energy Ltd. A provision for impairment loss had been recognised in full in the financial statements of the parent entity at the date of deconsolidation.

The annual financial statements of the consolidated entity as at and for the year ended 30 June 2010 are available upon request from the Company's registered office or may be viewed on the Company's website, [www.dragonenergy.com.au](http://www.dragonenergy.com.au).

### 2. STATEMENT OF COMPLIANCE

The half-year financial statements are general purpose financial statements which have been prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

The half-year financial statements do not include full disclosures of the type normally included within the annual financial statements. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Company as the full financial statements.

It is recommended that the half-year financial statements report be read in conjunction with the annual financial statements for the year ended 30 June 2010 and considered together with any public announcements made by Dragon Energy Ltd during the half-year ended 31 December 2010 in accordance with the continuous disclosure requirements arising under Corporations Act 2001 and the ASX Listing Rules.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

These half-year financial statements were approved by the Board of Directors on 24 February 2011.

### 3. BASIS OF PREPARATION

The half-year financial statements have been prepared on the accruals basis and on an historical cost basis. All amounts are presented in Australian dollars, unless otherwise noted.

For the purpose of preparing the interim financial report, the half-year has been treated as a discrete reporting period.

### 4. SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY ESTIMATES

The preparation of the half-year financial statements 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 half-year financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements as at and for the year ended 30 June 2010.

### 5. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In the half-year ended 31 December 2010, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2010.

It has been determined by the Company that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Company accounting policies.

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2010. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Company accounting policies.

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

**6. SEGMENT REPORTING**

The Board has determined that the Company has one reportable segment, being mineral exploration in Australia.

	<b>Mineral Exploration \$</b>	<b>Corporate and administrative \$</b>	<b>Company \$</b>
<b>31 December 2010</b>			
<b>Segment revenue</b>	-	64,155	<u>64,155</u>
Total revenue			<u>64,155</u>
<b>Segment result</b>	(252,443)	(451,994)	<u>(704,437)</u>
Loss before related income tax expense			<u>(640,282)</u>
<b>Segment assets</b>	1,163,593	2,203,674	<u>3,367,267</u>
<b>Segment liabilities</b>	567	116,281	<u>116,848</u>

	<b>Mineral Exploration \$</b>	<b>Corporate and administrative \$</b>	<b>Company \$</b>
<b>31 December 2009</b>			
<b>Segment revenue</b>	-	-	-
Other unallocated revenue	-	-	<u>80,498</u>
Total revenue			<u>80,498</u>
<b>Segment result</b>	(790,432)	(345,146)	(1,135,578)
Unallocated revenues and expenses	-	-	<u>80,498</u>
Loss before related income tax expense			<u>(1,055,080)</u>
<b>Segment assets</b>	-	4,592,965	<u>4,592,965</u>
<b>Segment liabilities</b>	19,794	204,254	<u>224,048</u>

	<b>31 December 2010 \$</b>	<b>30 June 2010 \$</b>
<b>7. EXPLORATION AND EVALUATION ASSETS</b>		

Exploration, evaluation and development costs carried forward in respect of areas of interest (net of amounts written off) (a)

**Reconciliation**

Carrying amount at beginning of period	517,799	300,000
Exploration and evaluation expenditure	393,096	67,799
Acquisition of Ashburton, Milly Milly and Lee Steere Range Projects	-	450,000
Acquisition of Nameless and Rocklea Projects	505,141	-
Expenditure written off	<u>(252,443)</u>	<u>(300,000)</u>
Carrying amount at end of period	<u>1,163,593</u>	<u>517,799</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 2010 the Company wrote off expenditure totalling \$252,443 (six months ended 31 December 2009: \$790,432).

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

**8. CONTRIBUTED EQUITY**

	<b>31 December 2010</b>	<b>30 June 2010</b>
	\$	\$
142,379,707 (30 June 2010: 142,379,707) fully paid ordinary shares	6,580,885	6,580,885

There were no movements in issued capital during the six months ended 31 December 2010.

**Options**

There were no options to subscribe for ordinary fully paid shares granted or exercised during the six months ended 31 December 2010.

No options lapsed during the six months ended 31 December 2010.

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

Class	Expiry Date	Exercise Price	Number of Options
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.

**9. COMMITMENTS AND CONTINGENCIES**

**Operating lease commitment**

The Company leases its offices in West Perth, Western Australia. The lease is for a 5-year period from December 2009. Future minimum rentals payable under the non-cancellable operating lease as at 31 December 2010 are as follows:

Not longer than 1 year	63,232
Longer than 1 year and not longer than 5 years	152,811
Longer than 5 years	-
	216,043

**Exploration Project commitments**

In March 2010, Dragon Energy acquired two iron ore projects and a 75% joint venture interest in one iron ore project from Polaris Metals NL ("Polaris"). The projects comprise seven tenements totalling 786 km<sup>2</sup> in size, including the Pilbara Ashburton project, the Midwest Milly Milly project and the Lee Steere Range project.

The terms of the sale and joint venture agreement require that Dragon Energy sole fund the first \$1 million of iron ore exploration expenditure ("Joint Venture Expenditure") on the Lee Steere Range project ("Sole Fund Period"). If the Company does not spend \$250,000 in Joint Venture Expenditure within 3 years, the Dragon Energy may elect to:

- (a) pay Polaris the difference between \$250,000 and the amount of Joint Venture Expenditure spent by Dragon Energy; or
- (b) extend the Sole Fund Period for a further 1 year with Dragon Energy committing to sole fund \$400,000 in Year 4. In the event Dragon Energy does not meet the sole fund obligation in Year 4, Polaris has the right to terminate the joint venture and retake the iron ore rights to the Lee Steere Range project.

The joint venture commences on completion of the Sole Fund Period. The agreement also provides that Polaris will retain a royalty right of 1.0% of gross receipts from sales of iron ore from all three projects ("Royalty"). The Royalty obligation ends once Dragon Energy has paid to Polaris \$10 million in Royalty payments.

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

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### 9. COMMITMENTS AND CONTINGENCIES (cont'd)

In October 2009, Dragon Energy entered into a joint venture agreement with Altera Resources Limited (**Altera**) on coal tenements applied for by Altera. The Exploration Permits for Coal Applications (**EPCAs**) cover an area of 5,626 km<sup>2</sup> in the Surat/Clarence-Moreton and Bowen Basins in Queensland. The thirteen EPCAs comprise eight non-competing, two competing and three secondary applications. Five out of the thirteen permits have been granted by the Queensland Department of Mines and Energy to date. Pursuant to a deed of variation executed in April 2010, the parties agreed the joint venture would commence on 1 July 2010.

The terms of the joint venture involve expenditure by Dragon Energy of \$3.5 million over 3 years to earn an 85% interest. The first year's commitment for Dragon Energy is \$0.5m exploration expenditure plus rent and environmental bonds, with second and third year total expenditure commitments of \$1.5m each. Dragon Energy has the right to withdraw from the joint venture after Year 1. Once Dragon has earned an 85% interest, Altera has the option to sell its remaining 15% interest in the project to Dragon for an amount to be agreed between the parties.

Pursuant to a further deed of variation executed in December 2010, seven of the thirteen permits were handed back to Altera.

In October 2010, the Company entered into a tenement sale agreements with Fortescue Resources Pty Ltd (a wholly owned subsidiary of AusQuest Limited), and their joint venture partners ("Vendors") to acquire the Rocklea Project (E47/1024-I), located in the Pilbara iron ore province ("Rocklea Sale Agreement").

The cash consideration for the Rocklea Project is \$7m (plus GST). Pursuant to the Rocklea Sale Agreement, the Company is obliged to make:

- A cash payment of \$4.5m upon the completion of the proposed capital raising (within 3 months after signing the Asset Sale Agreement); this consideration has been made on 19 January 2011;
- A second cash payment of \$1.5m on or before 19 January 2012;
- A final cash payment of \$1.0m on or before 19 January 2013.

The Vendors of the Rocklea Sale Agreement are entitled to require the Company to grant a registrable first ranking fixed charge over the Tenement in order to secure payment of the deferred components of the consideration. Until such time as the deferred consideration has been paid to the Vendors in full, the Company provides the following non-exhaustive covenants in favour of the Vendors:

- (a) to preserve the Tenement and maintain it in good standing;
- (b) not to sell, assign, sublease, transfer, Farmout or grant any rights to all or part of the Tenement or grant any mineral rights or split commodity rights in relation to the Tenement, without the Vendors' prior written consent; and
- (c) not to permit any new encumbrances in relation to the Tenement without the Vendors' prior written consent.

If any party defaults in the performance of the Rocklea Sale Agreement and such default continue unremedied for 14 days after receipt of a default notice, then the non-defaulting party or parties may rescind the Rocklea Sale Agreement and/or sue the defaulting party for specific performance.

#### Exploration commitments

In addition to the abovementioned project commitments, the Company has certain obligations to perform minimum exploration work on exploration licences held. These obligations may vary over time, depending on the Company's exploration program and priorities. The obligations are also subject to variations by negotiation, joint venturing or relinquishing some of the relevant tenements. As at balance date, total exploration expenditure commitments which have not been provided for in the financial statements amount to \$373,000 per annum.

#### Contingent Liabilities

The Company does not have any contingent liabilities at balance and reporting date.

There have been no other further changes to the commitments and contingencies disclosed in the most recent annual financial statements.

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

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**10. EVENTS SUBSEQUENT TO REPORTING DATE**

On 17 January 2011, the Company entered into a loan agreement with the Company's major shareholder, the Shandong Group for an amount of \$3.5 million ("Shareholder Loan") to be applied towards the acquisition of the Rocklea Project, new acquisitions and the Company's short term working capital requirements. The Shareholder Loan was unsecured, interest free and offset against application monies payable by the Shandong Group for its entitlement under the Rights Issue (described below).

On 19 January 2011, Dragon Energy completed the settlement of the \$4.5m payment for the Rocklea Project (E47/1024-1) pursuant to the Rocklea Sale Agreement and has assumed 100% title for the tenement. Funding for the settlement was made using the Company's internal resource and the Shareholder Loan from Shandong Group.

On 23 February 2011, Dragon Energy Ltd completed a 1 for 2 non-renounceable rights issue ("Rights Issue") and a 1 for 3 pro-rata non-renounceable entitlement issue of options ("Option Entitlement Issue") exercisable at \$0.35 each and expiring 18 November 2014 to shareholders, raising \$19,261,460 by way of issue of 64,046,667 Shares at \$0.30 per share and 47,460,245 Options at \$0.001 per option.

The financial effects of the above transaction have not been brought to account in the financial statements for the six months ending 31 December 2010.

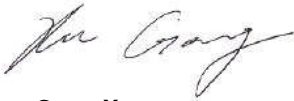
## D I R E C T O R S ' D E C L A R A T I O N

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In the opinion of the directors of Dragon Energy Ltd:

1. the financial statements and notes, set out on pages 6 to 14, are in accordance with the Corporations Act 2001, including:
  - (a) giving a true and fair view of the Company's financial position as at 31 December 2010 and its performance for the six months ended on that date; and
  - (b) complying with Accounting Standard, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
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.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to section 303(5) of the Corporations Act 2001.



**Gang Xu**  
**Managing Director**

Dated at Perth, Western Australia this 24<sup>th</sup> day of February 2011.

## 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 statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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

The directors of the disclosing entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### 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 a Financial Report 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 disclosing entity's financial position as at 31 December 2010 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Dragon Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.






## 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 disclosing entity's financial position as at 31 December 2010 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 Audit (WA) Pty Ltd

BDO Audit  


Chris Burton  
Director

Perth, Western Australia  
Dated this 24<sup>th</sup> day of February 2011