DRAGON ENERGY LIMITED

ANNUAL REPORT

for the year ended 30 June 2011

CORPORATE DIRECTORY

Directors	Mr Jie Chen	Chairman
	Mr Gang Xu	Managing Director
	Mr Qingyong Guo	Executive Director
	Mr Anthony Ho	Executive Director

Company Secretary

Ms Karen Logan

Principal Place of Business and Registered Office

Suite 8, 1297 Hay Street
West Perth, Western Australia, 6005

Telephone: + 61 8 9322 6009
Facsimile: + 61 8 9322 6128

Website Address

www.dragonenergyltd.com

Auditor

BDO Audit (WA) Pty Ltd
128 Hay Street
Subiaco, Western Australia, 6008

Solicitor

Steinepreis Paganin
Level 4, Next Building
16 Milligan Street
Perth, Western Australia, 6000

Banker

National Australia Bank Limited
1232 Hay Street
Subiaco, Western Australia, 6008

Bank of China
Level 10, 111 St Georges Terrace
Perth, Western Australia, 6000

Share Registry

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St George's Terrace
Perth, Western Australia, 6000

Telephone: + 61 8 9323 2000
Facsimile: + 61 8 9323 2033

Stock Exchange

ASX Limited
Exchange Plaza
2 The Esplanade
Perth, Western Australia, 6000

ASX Code: DLE
: DLEO

CONTENTS

DIRECTORS' REPORT

*The directors present their report together with the financial report of Dragon Energy Ltd (the **Company**) for the year ended 30 June 2011 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 Jie Chen
Executive Chairman – appointed 18 December 2008

Mr Chen has over 30 years of operational and management experience in the mining industry in the People's Republic of China (**PRC**). He started his mining and management career in 1979 with a large China state-owned coal mining enterprise in the PRC. Mr Chen has been chairman of the Shandong Taishan Sunlight Group Company Limited (**Shandong Group**) since 2002. Under his leadership, the Shandong Group formed three vertically integrated businesses in coal, iron ore mining, processing and manufacturing with operations in Shandong, Guizhou, Ningxia and Xinjiang. The coal mine under his management holds a safety record of over 5,000 days with no fatality.

Mr Chen has a masters degree in economics and is currently working on a doctorate degree in mine engineering with the China University of Mining and Technology. He has received numerous distinguished awards at provincial and national levels for his achievements in entrepreneurship and leadership including being one of the 10 excellent entrepreneurs in Shandong Province, top 20 best mine managers in the PRC and PRC's excellent entrepreneur.

Mr Chen will be retiring by rotation and seeking re-election by shareholders at the 2011 Annual General Meeting.

Mr Gang Xu
Managing Director – appointed 1 June 2006

Mr Xu is a geologist with over 20 years' experience in the mining and energy industry. He spent 9 years as a senior exploration geologist with the China National Nuclear Corporation (CNNC) which explored for uranium in eastern and northern China. Mr Xu was also the Finance and Marketing Manager for Sino Gold Limited which developed the first international standard mining operation in the PRC. In addition to his technical skills and experience in exploration and mining, he has significant diverse experience in business research, marketing and finance.

Mr Xu completed his Masters of Business Administration in the United States in 1997. He also completed his Masters of Geology in the PRC. He is a member of AusIMM and AICD.

Mr Qingyong Guo
Executive Director – appointed 18 December 2008

Mr Guo is a graduate in mine engineering from the China University of Mining and Technology. He was a mine engineer for a large China state-owned coal mine. Mr Guo is the General Manager of the Coal Project Generation Department for the Shandong Group. He was credited for securing Chinese government approvals of two iron ore mining licences in Shandong Province and one coal mining licence in Northwest China.

In 2004 he completed his masters degree in mine engineering and is currently working on his doctorate degree in project management.

Mr Anthony Ho
Executive Director – appointed 18 December 2008

Mr Ho is a commerce graduate of the University of Western Australia. He qualified as a Chartered Accountant in 1983 with Deloittes and is presently the principal of a consultancy practice, specialising in providing corporate and financial services to ASX-listed companies.

Prior to establishing his practice in 1991, he spent 7 years in a senior corporate role with a major investment and resource group in Western Australia. He is currently a director of several companies listed on ASX.

DIRECTORS (cont'd)

Mr Wenle Zeng
Non-Executive Director – appointed 24 July 2007, resigned 5 May 2011

COMPANY SECRETARY

Ms Karen Logan
Appointed 6 July 2010

Ms Logan graduated with a Bachelor of Commerce majoring in Accounting and Business Law from Curtin University in Western Australia and completed a Graduate Diploma in Applied Corporate Governance with Chartered Secretaries Australia. She is a Chartered Secretary and a Fellow of the Financial Services Institute of Australasia.

Ms Logan has been a partner of a public practice since 2006 and has significant experience in capital raising projects and ASX listings. She is currently the secretary of a number of ASX-listed companies and provides corporate and accounting advice and services to those clients.

Mr Anthony Ho
Appointed 31 August 2007, resigned 6 July 2010.

DIRECTORSHIPS IN OTHER LISTED ENTITIES

Directorships of other listed entities held by directors of the Company during the last 3 years immediately before the end of the financial year are as follows:

Director	Company	Period of directorship From	To
Mr J Chen	Nil	-	-
Mr G Xu	KTL Technologies Limited	18/12/07	31/07/09
	UraniumSA Limited	08/08/06	16/02/09
Mr Q Guo	Nil	-	-
Mr A Ho	Redisland Australia Limited	30/04/03	Present
	Siburan Resources Limited	12/11/09	Present
	Brumby Resources Limited	24/02/06	22/03/11
	Audalia Resources Limited	27/08/10	17/08/11
Mr W Zeng*	Nil	-	-

* *Appointed 24 July 2007, resigned 5 May 2011*

DIRECTORS' INTERESTS

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

Director	Ordinary shares	Options
Mr J Chen	-	-
Mr G Xu	13,596,207	4,532,069
Mr A Ho	-	500,000
Mr Q Guo	-	-

DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings		Nomination and Remuneration Committee Meetings		Audit and Risk Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
Mr J Chen	9	9	1	1	2	2
Mr G Xu	9	9	N/A	N/A	2	2
Mr A Ho	9	8	N/A	N/A	2	2
Mr Q Guo	9	9	1	1	N/A	N/A
Mr W Zeng*	9	9	1	1	N/A	N/A

* *Appointed 24 July 2007, resigned 5 May 2011*

Committee membership

As at the date of the report, the Company had a Nomination and Remuneration Committee and an Audit and Risk Committee of the Board of Directors:

Members acting on the committees of the Board during the financial year were:

Nomination and Remuneration Committee	Audit and Risk Committee
Mr Q Guo (Chairman)	Mr A Ho (Chairman)
Mr J Chen	Mr J Chen
Mr W Zeng*	Mr G Xu

* *Appointed 24 July 2007, resigned 5 May 2011*

PRINCIPAL ACTIVITY

The principal activity of the Company during the year was the development of interests in exploration projects in the resource industry in Australia.

OPERATING AND FINANCIAL REVIEW

Operating review

Overview

Dragon is an Australia based explorer and developer of minerals projects. It presently holds 9 projects in Western Australia, comprising 31 tenements (including 21 applications), totalling 1,505km2 in area. The primary exploration targets include iron (hematite & magnetite) and manganese mineralisation. Other potential commodity targets include gold, base metals and uranium.

Since acquiring the Pilbara Iron Project (consisting of Rocklea and Nameless Projects) early in 2011, a decision was made to fast track its development with the view of becoming a fully integrated iron ore producer and exporter. To this end a Scoping Study was initiated and various infrastructure options are currently being assessed.

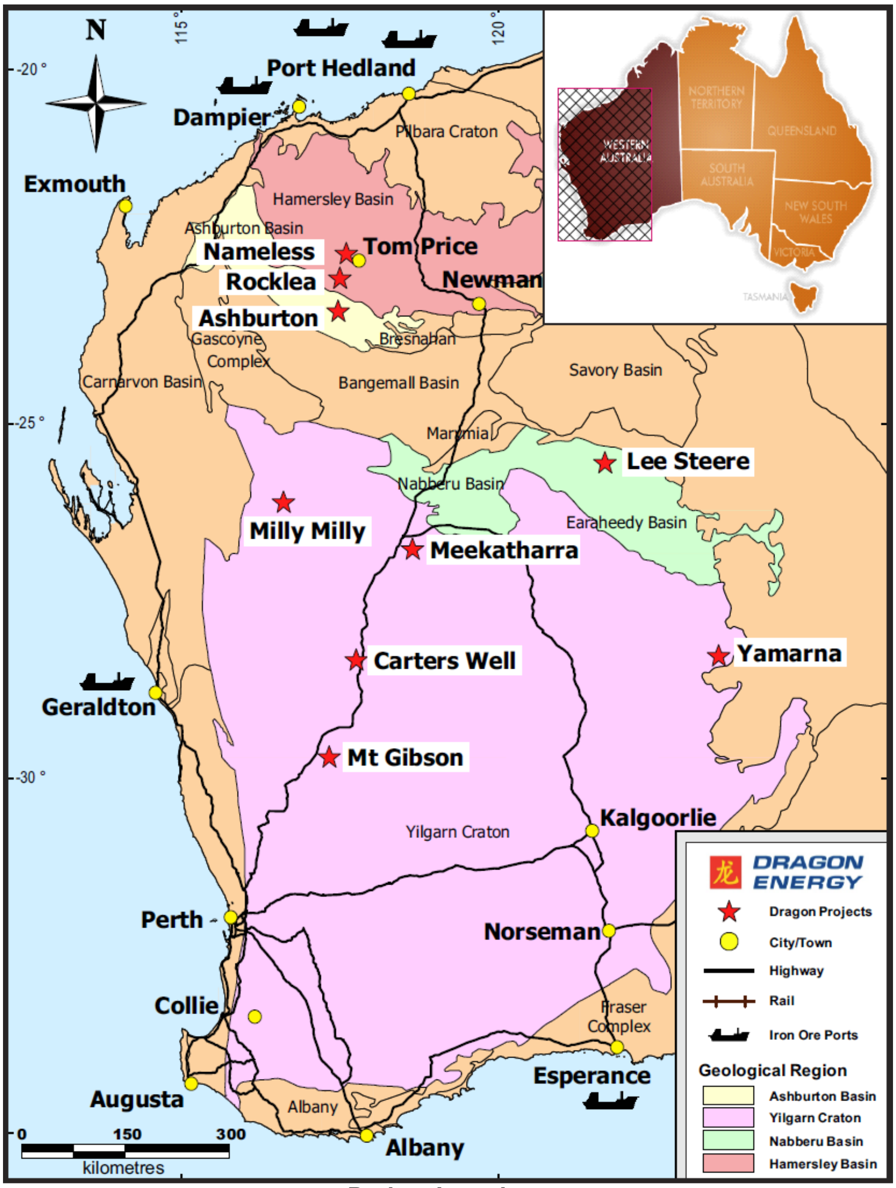
In February 2011, Dragon completed a rights and options issue to raise $19.2 million. Proceeds are earmarked for the acquisition and development of the Pilbara Iron Project and general working capital.

RC drilling programmes were designed for Rocklea and Nameless, and are progressing through the approval process. Ground geophysics and 3D modelling was carried out at Lee Steere, which identified iron and manganese drill targets. A low level surface geochemistry programme was undertaken at Carters Well.

A further 6 tenements were granted and exploration programmes designed to test various exploration targets. Two new projects were obtained during the period.

OPERATING AND FINANCIAL REVIEW (cont'd)

A Farm-in Joint Venture with Altera Resources Ltd (renamed Cokal Limited) on 13 Exploration Permits for Coal Applications in Queensland terminated 30 June 2011.



Project Locations

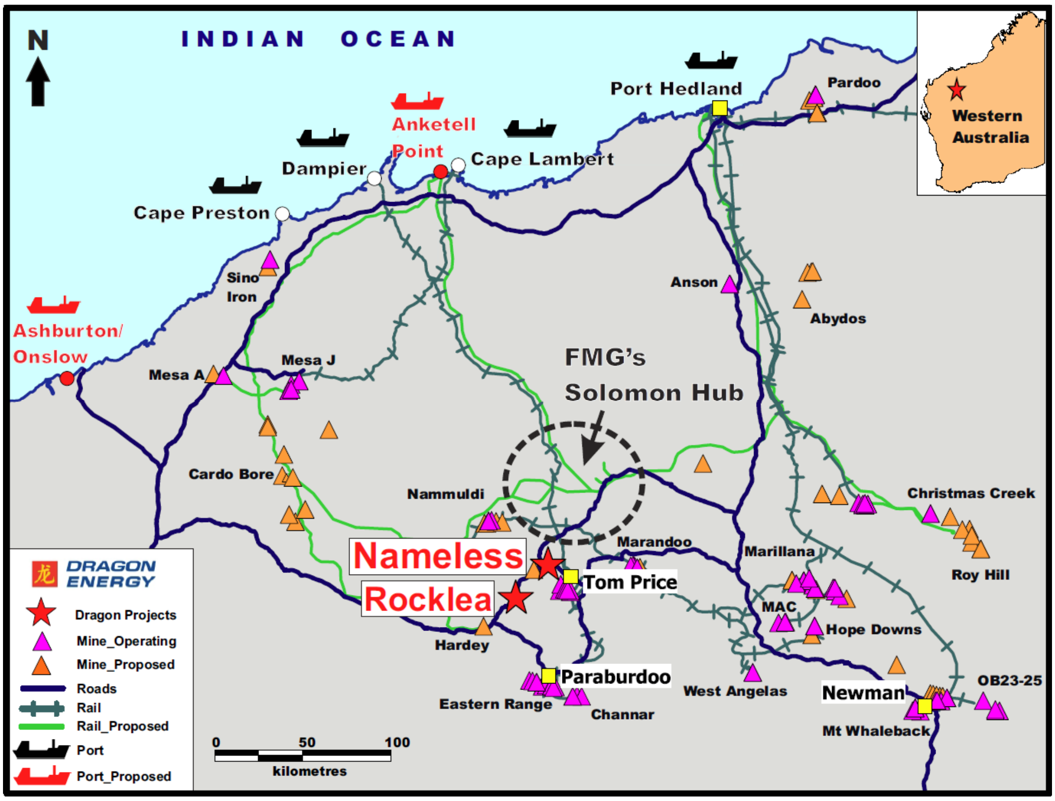
Pilbara Iron Project (Rocklea & Nameless)

The Nameless and Rocklea projects were acquired October 2010 and January 2011 respectively. Dragon has decided to pursue rapid development of the Pilbara Iron Projects, which has potential to convert Dragon to a fully integrated iron ore miner and exporter. Consequently Dragon engaged leading engineering consultancy GHD to prepare a Scoping Study on the Pilbara Iron Projects that takes into consideration of the objectives of:

- Early development with emphasis on speed to market; and
- Maximise self-determination for transportation infrastructure.

Mining lease negotiations for the Nameless project was initiated during the period. The Rocklea project's mining lease negotiation will likely be initiated later in 2011.

OPERATING AND FINANCIAL REVIEW (cont'd)



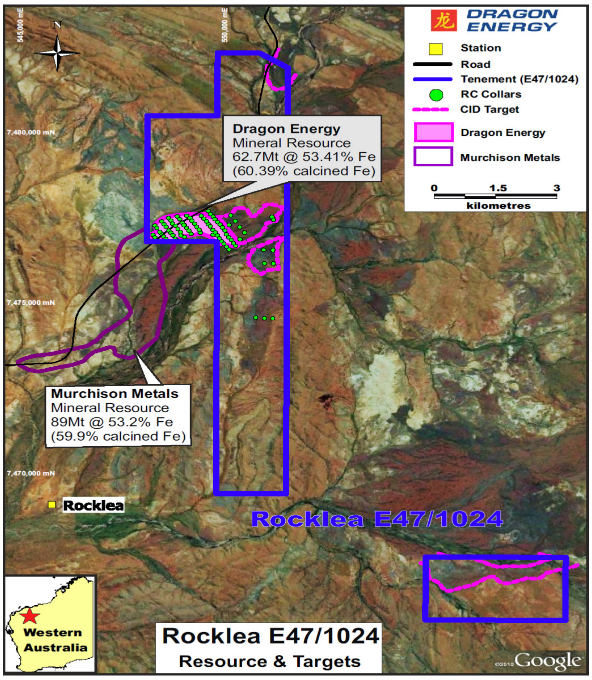
Pilbara Infrastructure

Rocklea Project (M47/1471, E47/1024)

Located 33km southwest of the mining town of Tom Price, and immediately north of Murchison Metals' Rocklea CID project in the Pilbara Region.

In the 1970s Hamersley Exploration Pty Ltd identified a small CID resource. From 2005-2009 drilling by AusQuest outlined an Inferred Resource of 62.7Mt @ 53.41% Fe (60.39% caFe), including a higher grade component of 28.0Mt @ 55.62% Fe (62.71% caFe). This resource is open to the south and east, and outcropping CID in the NE corner of the tenement has not been drill tested.

An infill, step-out and exploratory drilling programme has been designed to increase the confidence level of the CID resource and potentially increase its size. A Heritage Survey has been carried out and the programme is currently progressing through the approval process for drilling. Drilling is expected to commence in the fourth quarter 2011.



	Million tonnes	Fe (%)	caFe (%)	SiO_2 (%)	Al_2O_3 (%)	P (%)	LOI (1000°C) (%)	Cut-off grade
Inferred	62.7	53.41	60.39	7.73	2.80	0.034	11.56	50%
Inferred	28.0	55.62	62.71	6.03	2.06	0.034	11.31	54%

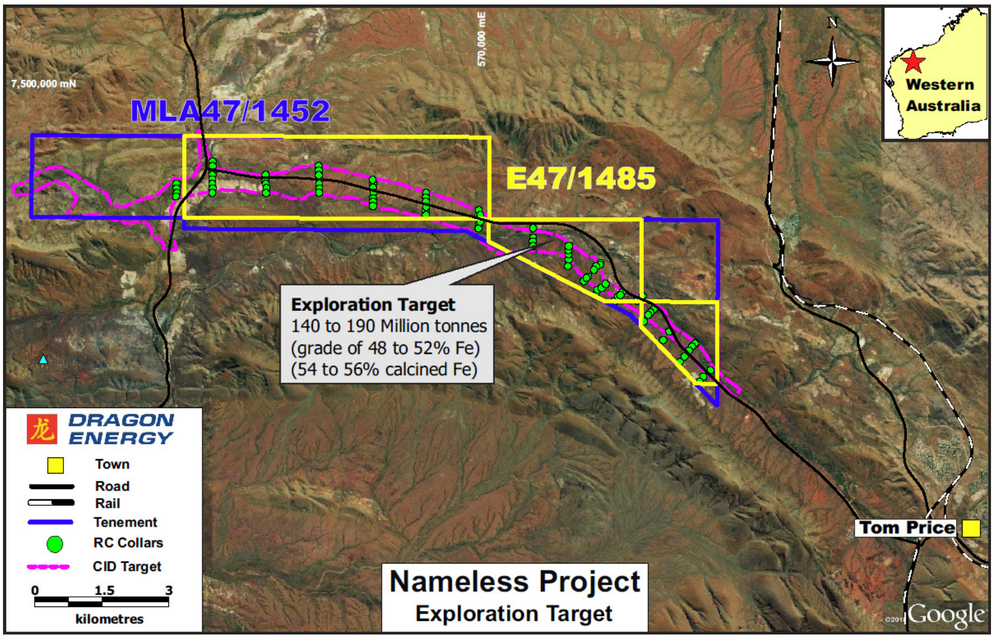
OPERATING AND FINANCIAL REVIEW (cont'd)

Nameless Project (M47/1452, E47/1485, E47/2456–2458)

The Nameless Project is located 10km NW of the mining town of Tom Price in the Pilbara Region.

Mapping by AusQuest delineated 15km strike of a prospective 200-600m wide palaeochannel, of which 12.5km was drill tested on 400m to 1200m spaced drilling traverses. CID mineralisation is up to 24m in thickness. An exploration target of 140 to 190Mt of grade 48-52% Fe (54-56% caFe) has been defined by Dragon of CID and Marra Mamba detrital mineralisation.

An infill drilling programme has been designed to define the continuity of CID and lesser detrital Marra Mamba iron mineralisation, to potentially derive a JORC resource. A Heritage Survey has been carried out and the drilling programme will be submitted for approval in the September quarter. Drilling is expected to commence in the first quarter 2012.

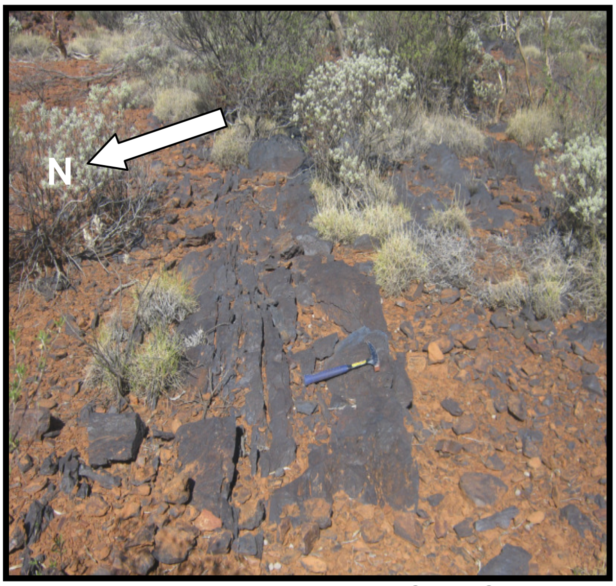


Lee Steere Project (E69/2126, E69/2377)

The Lee Steere Range project is located some 200km NE of Wiluna, in the Earaheedy Basin of the Midwest.

Previous exploration activities in the 1970s identified enriched hematite mineralisation of BIFs and Superior-type iron within the Frere Formation; rock chips of up to 66.1% Fe were reported. The project contains 48km strike of the prospective Frere Formation, as identified from magnetics and outcrop.

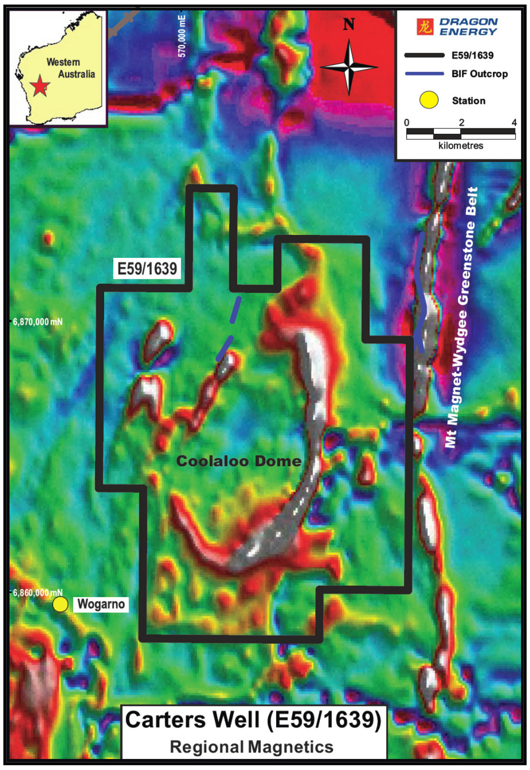
Reconnaissance mapping, a ground magnetic survey and sampling in the latter half of 2010 identified sparse iron and manganese outcrop, with the most promising results from E69/2377. A 500m continuous unit of alternating beds of shale and (Superior-type) granular iron formation was mapped, together with an adjacent 220m supergene enriched manganese/iron unit. This stratabound manganese/iron unit is up to 15m in apparent width and was traced a further 110m along strike as discontinuous pods. Selective and representative rock chip sampling from 1-30m wide outcrops returned grades of up to 65.6% Fe, and 33.6% Mn.



E69/2377 – Manganese ± Iron Oxide Outcrop

OPERATING AND FINANCIAL REVIEW (cont'd)

A ground gravity survey was carried out centred over the iron and manganese units described above and 3D modelling carried out to help identify drill targets. Dragon was awarded the State Government's "Exploration Incentive Scheme- Co-funded Drilling" to test these targets. However, the drilling of these targets has been suspended pending the successful negotiation of a new Heritage Agreement.



Carters Well Project (E59/1639)

The project is located 30km south of Mt Magnet, adjacent to the Great Northern Highway.

The tenement overlies the Coolaloo Dome, a granite batholith having a prominently magnetic margin which may reflect the presence of a hematite-magnetite-quartz shear (BIF) adjacent to the contact. BIF has been mapped within the western granitoids, and the Magnet-Wydgee Fold Belt greenstones on the eastern margin. The structure outcrops poorly but is well defined on the aeromagnetic data beneath transported overburden.

Major NE striking faults on the Boogardie Synform exhibit important control over many of the gold ore deposits in the Mt Magnet district. Such NE structures are exhibited on the project area. A targeted MMI surface sampling programme comprising 710 samples was completed during the period. Assays are pending.

Ashburton Project (E08/2209–2211, E47/2417)

The project is 10-40km from rail and other infrastructure associated with the Paraburdoo operations of Rio Tinto Iron Ore.

Approximately 50% of the project area has a Cainozoic cover which potentially conceals channel iron deposits (CID) within the braided drainages of Turee and Seven Mile Creeks, which drain the ranges of the Brockman Iron Formation near Paraburdoo.

A reconnaissance sampling programme has been designed, and will be undertaken upon grant of all the tenements. Three of the four tenements are currently progressing through the application process.

OPERATING AND FINANCIAL REVIEW (cont'd)

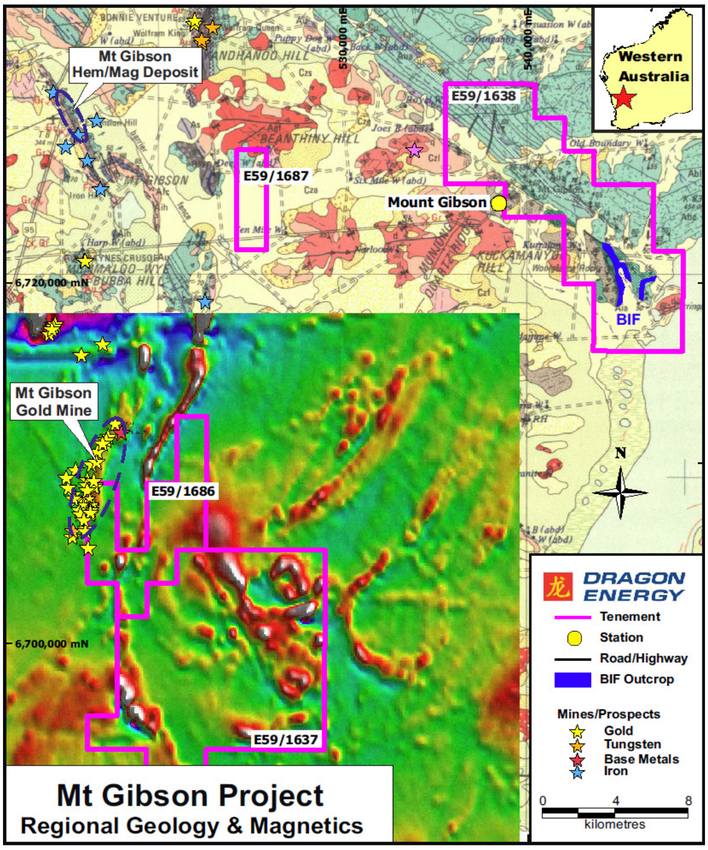
Mt Gibson Project (E59/1637–1638, E59/1686–1687)

These tenements lie 80km northeast of Wubin, 7-32km south and east of the Extension Hill Hematite/Magnetite Project, and partly host the Mt Gibson Gold Operation.

A 7km outcrop of magnetite (hematite)-amphibole-quartz BIF has previously been mapped on E59/1638 within the southern Ninghan Belt. However, field reconnaissance failed to reveal prominent BIF outcrops in the area. Exploration will focus on commodities other than iron on this tenement.

E59/1686 incorporates a couple of open pits from the Mount Gibson Gold Operation (870,000oz mined), within the southern Retaliation Belt, which hosts the Mt Gibson iron deposits to the north. Regional magnetics indicates that similar geological and structural features extend within E59/1686 and E59/1637, together with higher intensity BIF/ultramafic magnetic characteristics.

A review of past exploration activities was undertaken and a targeted low-level surface geochemistry sampling programme designed to test various structural and geological targets.



Milly Milly Project (E09/1811)

The project is located 196km west of Meekatharra, and 58km east of the Jack Hills iron operation in the northern Yilgarn Craton.

The project has potential to host Jack Hills style, high quality magnetite iron ore deposits. BMR regional magnetic surveys indicate favourable host rocks of 42km strike within the tenement. GSWA mapping indicates 26km strike of BIF (quartz-magnetite) outcrop, with previous exploration to date returning rock chip results of 30-40% Fe with a peak value of 44% Fe. A chromite rich magnetite layer with an interpreted strike length of 1.6km provides an alternative exploration target.

These tenements are currently progressing through the application process.

OPERATING AND FINANCIAL REVIEW (cont'd)

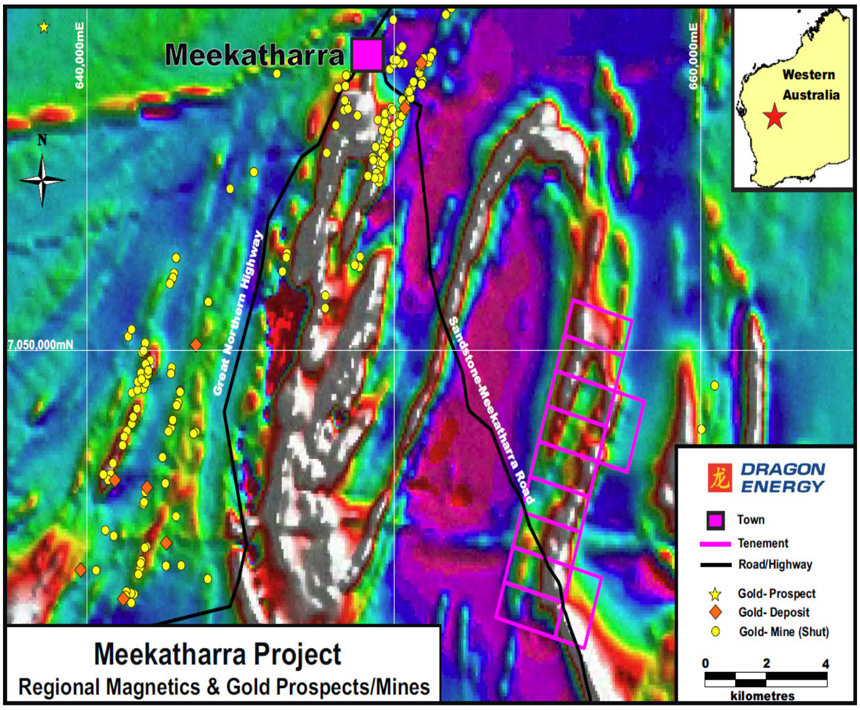
Meekatharra Project (P51/2734–2744)

The project area is located 13km SE of Meekatharra, within the Midwest Region of the Yilgarn Craton.

The project lies in the Archaean Meekatharra greenstone belt, a regional N-NE trending synclinal structure.

Gold was discovered in the area in the 1890s. Mineralisation is generally structurally hosted and associated with quartz veining. Arsenic anomalies have been found to be associated with gold mineralisation (eg. Jones Prospect).

Limited exploration activities in the project area identified linear northerly trending arsenic anomalies with coincident weakly anomalous gold mineralisation to the north, and gold anomalies on lithological contacts with strongly anomalous arsenic to the south. The licences are in application, and a review of the project is underway.

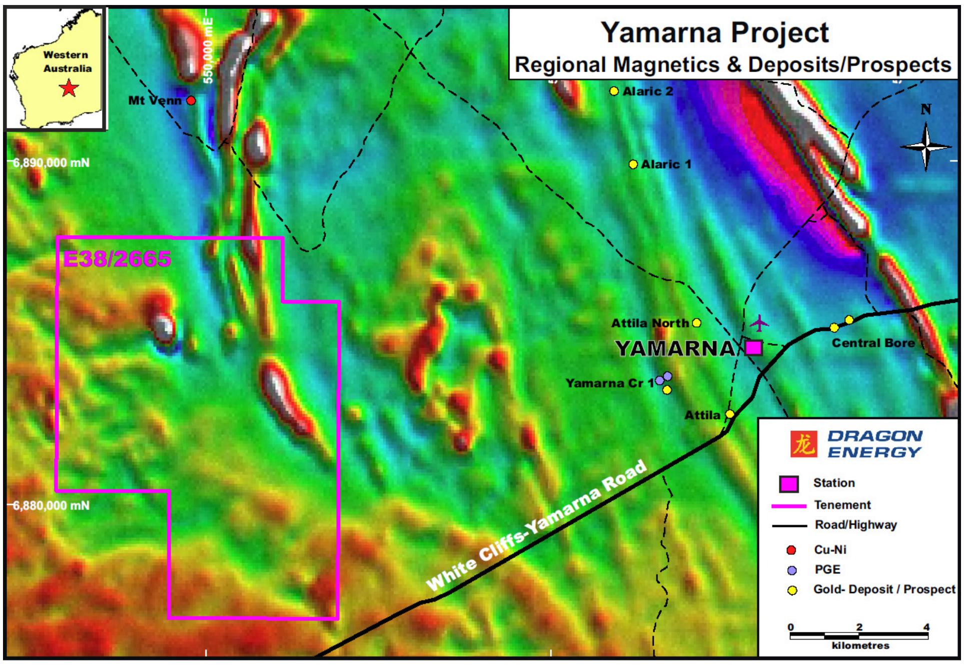


Yamarna Project (E38/2665)

The Yamarna project area is located 120km NE of Laverton, within the Goldfields-Esperance Region.

The project is situated between two greenstone belts; the Cosmo-Newberry Greenstone belt to the west and the Yamarna Greenstone belt to the east. Gold mineralisation has been identified to the east, hosted by laminated quartz-mica-amphibole schist units- altered and sheared mafic volcanics and sediments.

Dragon's project lies 5km to the south of Platina Resources & Global Nickel's Mt Venn Cu-Ni-PGE Prospect. Regional magnetics indicates that the greenstone succession at Mt Venn is also present on E38/2665. The licence is in application, and a review of the project is underway.



OPERATING AND FINANCIAL REVIEW (cont'd)

Dragon Energy Tenement Schedule (Updated on 29/08/11)

Project	Tenement	Area (km^2)	Status	Ownership	Target
Pilbara Region					
Ashburton	E08/2211	167	**Granted**	100%	Fe (CID), Au
	E08/2210	145	Pending	100%	Fe (CID), Au
	E08/2209	132	Pending	100%	Fe (CID), Au
	E47/2417	63	Pending	100%	Fe (CID), Au
Nameless	E47/1485-I	31	**Granted**	100%	Fe (CID, MM)
	M47/1452	32	Pending	100%	Fe (CID, MM)
	E47/2456	6	Pending	100%	Fe (CID, MM)
	E47/2457	13	Pending	100%	Fe (CID, MM)
	E47/2458	3	Pending	100%	Fe (CID, MM)
Rocklea	E47/1024-I	35	**Granted**	100%	Fe (CID)
	M47/1471	28	Pending	100%	Fe (CID)
Midwest Region					
Carters Well	E59/1639	142	**Granted**	100%	Au
Lee Steere	E69/2126-I	74	**Granted**	100%	Fe, Mn
	E69/2377-I	81	**Granted**	100%	Fe, Mn
Meekatharra	P51/2734	2	Pending	100%	Au
	P51/2735	2	Pending	100%	Au
	P51/2736	2	Pending	100%	Au
	P51/2737	2	Pending	100%	Au
	P51/2738	2	Pending	100%	Au
	P51/2739	2	Pending	100%	Au
	P51/2740	2	Pending	100%	Au
	P51/2741	2	Pending	100%	Au
	P51/2742	2	Pending	100%	Au
	P51/2743	2	Pending	100%	Au
	P51/2744	2	Pending	100%	Au
Milly Milly	E09/1811	191	Pending	100%	Fe
Mt Gibson	E59/1637	131	**Granted**	100%	Fe, Au
	E59/1638	89	**Granted**	100%	Fe, Au
	E59/1686	36	**Granted**	100%	Fe, Au
	E59/1687	9	**Granted**	100%	Fe, Au
Goldfields-Esperance					
Yamarna	E38/2665	75	Pending	100%	Au, Ni, Pt

M47/1452 is a conversion mining lease application that overlies E47/1485-I

M47/1471 is a partial conversion mining lease application that overlies E47/1024-I

OPERATING AND FINANCIAL REVIEW (cont'd)

Financial review

The Company incurred a loss of $1,529,708 for the financial year (2010: loss of $1,530,759). This loss included the write-off of $65,147 (2010: $300,000) in capitalised exploration and evaluation assets and the incurrence of $398,110 (2010: $695,826) in exploration expenditure in accordance with the Company's accounting policies, corporate and administrative costs of $995,596 (2010: $723,579) and net loss from foreign currency exchange of $340,476 (2010: Nil).

Significant Changes in the State of Affairs

The Company's net assets increased by $17,665,787 to $21,556,488 during the financial year. The increase in net assets principally comprised the monies from capital raising which took place in February 2011.

On 23 February 2011, the Company completed the Rights issue and Option Entitlement, 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.

RESULTS

The Company incurred a loss from operating activities of $1,529,708 (2010: loss of $1,530,759) after income tax for the financial year.

REVIEW OF ACTIVITIES

During the year, the Company focused its activities in development of interests in exploration projects in the resource industry in Australia.

LIKELY DEVELOPMENTS

The Company will continue to pursue its main objective of developing interests in exploration projects. The Company also continues to pursue other acquisition opportunities.

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

DIVIDENDS

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

ENVIRONMENTAL REGULATION

Dragon Energy's exploration and mining activities are governed by a range of environmental legislation and regulations. As the Company is still in the development phase of its interests in exploration projects, Dragon Energy is not yet subject to the public reporting requirements of environmental legislation and regulations. To the best of the directors' knowledge, the Company has adequate systems in place to ensure compliance with the requirements of the applicable environmental legislation and is not aware of any breach of those requirements during the financial year and up to the date of the Director's Report.

EVENTS SUBSEQUENT TO REPORTING DATE

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 Company, the results of those operations, or the state of affairs of the Company in future financial years.

OPTIONS

Options granted

The following options were granted during or since the end of the year.

Class	Expiry Date	Exercise Price	Number of Options
Listed Options	18 November 2014	$0.35	47,460,245

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
Unlisted Options	31 May 2012	$0.30	11,150,000
Listed Options	18 November 2014	$0.35	47,460,245

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.

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

The Company paid a premium during the year in respect of a director and officer liability insurance policy, insuring the directors of the Company, the company secretary, and all executive officers of the Company against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

NON-AUDIT SERVICES

Details of amounts paid or payable to the Company's auditor, BDO Audit (WA) Pty Ltd (**BDO**), for audit and non-audit services provided during the year are outlined in note 4 to the annual report.

The Board and the Audit and Risk Committee are satisfied that the provision of the non-audit services is compatible with general standard of independence for auditors imposed by the *Corporations Act 2001.* The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

(a) all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor

(b) none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

REMUNERATION REPORT

The Remuneration Report sets out on pages 15 to 18 forms part of the Directors' Report and signed as part of it.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under Section 3007C of the Corporations Act 2001 is set out on page 14 and forms part of the Directors' Report.

Dated at Perth, Western Australia this 15 day of September 2011.

Signed in accordance with a resolution of the directors:

Xu Gang

Gang Xu
Managing Director

BDO

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

15 September 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 year ended 30 June 2011, 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 during the year.

C Burton

Chris Burton
Director

BDO

BDO Audit (WA) Pty Ltd
Perth, Western Australia

AUDITED REMUNERATION REPORT

This Remuneration Report outlines the director and executive remuneration arrangements of the Company in accordance with the requirements of the *Corporations Act 2001* (the Act) and its Regulations. This information has been audited as required by Section 308 (3C) of the Act.

For the purposes of this report, key management personnel of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. The Company does not presently employ any executives, other than the executive directors.

KEY MANAGEMENT PERSONNEL

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

Name	Position held
Mr J Chen	Executive Chairman
Mr G Xu	Managing Director
Mr Q Guo	Executive Director
Mr A Ho	Executive Director / Chief Financial Officer
Mr W Zeng	Non-Executive Director (*Appointed 24 July 2007, resigned 5 May 2011*)

REMUNERATION COMMITTEE

The Nomination and Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration policies for the directors and executives. If necessary, the Nomination and Remuneration Committee obtains independent advice on the appropriateness of remuneration packages given trends in comparable companies and in accordance with the objectives of the Company.

Further information on the Nomination and Remuneration Committee's role, responsibilities and membership is set out in the section entitled Corporate Governance Statement in this Annual Report.

PRINCIPLES OF REMUNERATION

The remuneration structures explained below are competitively set to attract and retain suitably qualified and experienced candidates, reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the achievement of strategic objectives;
- the Company's performance including:
  - the growth in share price; and
  - the amount of incentives within each key management person's compensation.

Given the evaluation and developmental nature of the Company's principal activity, the overall level of compensation does not have regard to the earnings of the Company.

REMUNERATION STRUCTURE

In accordance with best practice corporate governance, the structure of non-executive directors' remuneration is clearly distinguished from that of executives.

Non-executive director remuneration

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. Total remuneration for all non-executive directors, last voted upon by shareholders at the 2007 General Meeting, is not to exceed $500,000 per annum. Directors' fees cover all main board activities and membership of committees.

Non-executive directors generally do not receive performance related compensation. However, shareholders approved the grant of 4,000,000 options to non-executive directors on 20 March 2008.

REMUNERATION STRUCTURE (cont'd)

Non-executive director remuneration (cont'd)

The Board considers that the issue of 4,000,000 options as remuneration to the non-executive directors was appropriate at the date of grant. The Board believes it ensured that remuneration was competitive with market standards and provided an incentive to pursue longer term success for the Company. Furthermore, the Board considers the grant of options as remuneration reduced demand on the critical cash resources of the Company at that time, and assisted in ensuring the continuity of service of directors who have extensive knowledge of the Company, its business activities and assets and the industry in which it operates.

Non-executive directors do not receive any retirement benefits, other than statutory superannuation.

Executive remuneration

Remuneration for executives is set out in employment agreements. Details of these employment agreements are provided below.

Executive directors may receive performance related compensation but do not receive any retirement benefits, other than statutory superannuation.

Fixed remuneration

Fixed remuneration consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles) as well as employer contributions to superannuation funds.

Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee through a process that considers individual and overall performance of the Company. As noted above, the Nomination and Remuneration Committee has access to external advice independent of management.

Long-term incentive

Long-term incentives (**LTI**) may be provided to key management personnel via the Dragon Energy Employee Share Option Plan (**ESOP**). The LTI are provided as options over ordinary shares of the Company to key management personnel based on their position within the Company. Vesting conditions may be imposed on any LTI grants if considered appropriate, in accordance with the ESOP's terms and conditions.

LTI are considered to promote continuity of employment and provide additional incentive to recipients to increase shareholder wealth. Options may only be issued to directors subject to approval by shareholders in general meeting.

There were no options issued as LTI during the year.

The Company has introduced a policy that prohibits employees and directors of the Company from entering into transactions that operate or are intended to operate to limit the economic risk or are designed or intended to hedge exposure to unvested Company securities. This includes entering into arrangements to hedge their exposure to LTI granted as part of their remuneration package. This policy may be enforced by requesting employees and directors to confirm compliance.

Consequences of performance on shareholder wealth

In considering the Company's performance and benefits for shareholder wealth, the directors have regard to the following indices in respect of the current financial year and the previous financial periods:

	2011	2010	2009	2008
Net loss for the year	$1,529,708	$1,530,759	$601,675	$479,733
Dividends paid	Nil	Nil	Nil	nil
Change in share price	(19.5 cents)	8.5 cents	12.5 cents	9.0 cents
Share price at beginning of the period	31.0 cents	22.5 cents	10.0 cents	1.0 cent[2]
Share price at end of the period	11.5 cents	31.0 cents	22.5 cents	10.0 cents[1]
Loss per share	0.93 cents	1.08 cents	0.61 cents	1.33 cents

1. The last issue price per share in a seed capital raising prior to 30 June 2008.
2. The Company was incorporated on 1 July 2006 with an issued capital of $100 (100 shares of 1.0 cent each).

REMUNERATION STRUCTURE (cont'd)

Consequences of performance on shareholder wealth (cont'd)

Due to the Company currently being in an evaluation and developmental phase, the Company's earnings is not considered to be a principle performance indicator. However, the overall level of key management personnel remuneration takes into account the achievement of strategic objectives, service criteria and growth in share price.

As a result, remuneration was not paid to non-executive directors, the Chairman or the Chief Financial Officer until the Company was admitted to the Official List of ASX in February 2009. Furthermore, total remuneration for all non-executive directors has remained unchanged since voted upon by shareholders in September 2007.

There were no performance related remuneration transactions during the financial year (2010: nil).

EMPLOYMENT AGREEMENTS

The Company has entered into an employment agreement with its executive directors. The employment agreements outline the components of remuneration paid to the executives and are reviewed on an annual basis.

Mr Jie Chen, Executive Chairman, has an employment agreement effective from 1 April 2009 with the Company (**Employment Agreement**). The Employment Agreement specifies the duties and obligations to be fulfilled by the Executive Chairman. The Employment Agreement is for an unlimited term and is capable of termination on one month's notice, or making payment in lieu of notice. The Company must pay to Mr Chen $120,000 per annum (exclusive of statutory superannuation) for Mr Chen's services. With effect from 1 December 2009, the Company resolved to pay $180,000 per annum (exclusive of statutory superannuation payment) for Mr Chen's services, under the terms of the Employment Agreement. During the financial year, the Company resolved to increase the salary of Mr Chen as Executive Chairman to $280,000 per annum (exclusive of statutory superannuation payment) with effect from 16 May 2011.

The Employment Agreement is terminable by either the Company or Mr Chen giving written notice. Mr Chen has no entitlement to termination payment in the event of removal for misconduct.

Mr Gang Xu, Managing Director, has an employment agreement effective from 16 May 2008 with the Company (**MD Employment Agreement**). The MD Employment Agreement specifies the duties and obligations to be fulfilled by the Managing Director. The term of the MD Employment Agreement was 3 years. The Company must pay to Mr Xu $100,000 per annum (exclusive of statutory superannuation) for Mr Xu's services. With effect from 13 February 2009, the Company must pay $160,000 per annum (exclusive of statutory superannuation) for Mr Xu's services, under the terms of the MD Employment Agreement. With effect from 1 December 2009, the rate of remuneration was increased to $180,000 per annum (exclusive of statutory superannuation) under the terms of the MD Employment Agreement. With effect from 16 May 2011, the Company resolved to renew Mr Xu's MD Employment Agreement with a further term of 3 years and resolved to increase Mr Xu's salary as Company's MD to $280,000 per annum (exclusive of statutory superannuation).

The MD Employment Agreement is terminable after its initial term by either the Company or Mr Xu giving written notice. Mr Xu has no entitlement to termination payment in the event of removal for misconduct.

Mr Anthony Ho, Chief Financial Officer, has an employment agreement effective from 13 February 2009 with the Company (**CFO Employment Agreement**). The CFO Employment Agreement specifies the duties and obligations to be fulfilled by the Chief Financial Officer. The term of the CFO Employment Agreement was 3 years. The Company must pay to Mr Ho $80,000 per annum (exclusive of statutory superannuation) for Mr Ho's services. With effect from 16 May 2011, the Company resolved to increase the salary of Mr Ho to $100,000 per annum (exclusive of statutory superannuation) and to apply a further term of 3 years to the employment of Mr Ho.

The CFO Employment Agreement is terminable after its initial term by either the Company or Mr Ho giving written notice. Mr Ho has no entitlement to termination payment in the event of removal for misconduct.

Mr Qingyong Guo, Executive Director, has an employment agreement dated 15 July 2009 with the Company (**ED Employment Agreement**). The ED Employment Agreement specifies the duties and obligations to be fulfilled by the Executive Director. The ED Employment Agreement is for an unlimited term and is capable of termination on one month's notice, or immediately by making payment in lieu of notice. Under the terms of the ED Employment Agreement, Mr Guo will be paid $80,000 per annum (exclusive of statutory superannuation) for Mr Guo's services. With effect from 1 December 2009, the Company resolved to pay $120,000 per annum (exclusive of statutory superannuation payment) for Mr Guo's services, under the terms of the ED Employment Agreement.

The ED Employment Agreement is terminable by either the Company or Mr Guo giving written notice. Mr Guo has no entitlement to termination payment in the event of removal for misconduct.

EMPLOYMENT AGREEMENTS (cont'd)

Refer to Note 20 for details on the financial impact in future periods resulting from firm commitments arising from non-cancellable contracts for services with directors.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Details of the nature and amount of each major element of the remuneration of each key management person of the Company are:

		PRIMARY	POST-EMPLOYMENT	SHARE-BASED PAYMENTS		
		Salary & fees $	Superannuation $	Options $	Total $	Performance related %
Directors						
Non-executive						
Mr W Zeng	2011	20,000	-	-	20,000	-
	2010	24,000	-	-	24,000	-
Executive						
Mr J Chen	2011	192,634	17,337	-	209,971	-
	2010	170,000	14,490	-	184,490	-
Mr G Xu	2011	185,384	25,000	-	210,384	-
	2010	162,117	25,000	-	187,117	-
Mr Q Guo	2011	120,000	10,800	-	130,800	-
	2010	89,333	7,500	-	96,833	-
Mr A Ho	2011	82,527	7,427	-	89,954	-
	2010	80,000	7,200	-	87,200	-
Specified Executive						
Company Secretary						
Ms K Logan (i)	2011	-	-	-	-	-
Total, all directors and executive	**2011**	600,545	60,564	-	661,109	-
	2010	525,450	54,190	-	579,640	-

(i) Appointed on 6 July 2010. In addition to the remuneration as disclosed above, a total of $82,949 (2010: $58,831) was paid to Townshend York Pty Ltd for secretarial, accounting and consultancy services by Ms Karen Logan to the Company.

SHARE-BASED COMPENSATION

There were no share-based remuneration transactions during the year.

The Board and management of Dragon Energy Limited (**Dragon Energy** or the **Company**) recognise their duties and obligations to shareholders and other stakeholders to implement and maintain a robust system of corporate governance. The Company believes that the adoption of good corporate governance adds value to stakeholders and enhances investor confidence.

The Company acknowledges the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations with 2010 Amendment* (2nd Edition) (the "Recommendations"). This Corporate Governance Statement provides details of the Company's compliance with those Recommendations, or where appropriate, indicates a departure from the Recommendations with an explanation. A checklist summarising the Company's compliance with the Recommendations is also set out at the end of this statement.

The Company's corporate governance policies are available on the Company's website: www.dragonenergyltd.com.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Board Charter

The Board is accountable to shareholders for the performance of the Company. The Board operates under the Board Charter that details its functions, responsibilities and powers and those delegated to management.

On appointment, non-executive directors receive formal letters of appointment setting out the terms and conditions of appointment. The formal letter of appointment covers the matters referred to in the guidance and commentary for Recommendation 1.1. Executive directors are employed pursuant to employment agreements.

Evaluation of the performance of senior executives

The performance of senior executives is evaluated in accordance with the Performance Evaluation Process. A performance evaluation for senior executives has taken place in the reporting period and was carried out in accordance with the process disclosed.

The Board Charter and Performance Evaluation Process are available on the Dragon Energy website.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Composition of the Board

The Board consists of an executive chairman, the Managing Director and two executive directors. Details of their skills, experience and expertise and the period of office held by each director have been included in the Directors' Report. The number of board meetings and the attendance of the directors are set out in the Directors' Report.

The roles of Chairman and the Managing Director are not exercised by the same individual. The Board Charter summarises the roles and responsibilities of the Chairman, Mr Chen and the Managing Director, Mr Xu.

Independence of non-executive directors and the Chairman of the Board

The Board has assessed the independence of the non-executive directors and the Chairman using defined criteria of independence and materiality consistent with the guidance and commentary for Recommendation 2.1.

The Chairman, Mr Chen does not satisfy the tests of independence as detailed in the Recommendations.

The Company is at variance with Recommendations 2.1 and 2.2 in that the majority of directors are not independent and the Chairman is not independent. The Board has determined that the composition of the current Board represents the best mix of directors that have an appropriate range of qualifications and expertise, can understand and competently deal with current and emerging business issues and can effectively review and challenge the performance of management. Furthermore, each individual member of the Board is satisfied that whilst the Company may not comply with Recommendations 2.1 and 2.2, all directors bring an independent judgement to bear on Board decisions.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of two members and is chaired by Mr Guo.

The Nomination and Remuneration Committee Charter sets out its role, responsibilities and membership requirements. The Charter reflects the matters set out in the commentary and guidance for Recommendation 2.4.

For information on the skills, experience and expertise of the Nomination and Remuneration Committee members, refer to the Directors' Report.

Details of the members and their attendance at meetings of the Nomination and Remuneration Committee are included in the Directors' Report.

The Company is at variance with Recommendation 2.4 in that the Nomination and Remuneration Committee does not consist of a majority of independent directors. The Board considers that this composition is appropriate given the current size of the Company.

Board renewal and succession planning

The appointment of directors is governed by the Company's Constitution and the Appointment and Selection of New Directors policy. In accordance with the Constitution of the Company, no director except a Managing Director shall hold office for a continuous period in excess of three years or past the third annual general meeting following the director's appointment, whichever is the longer, without submitting for re-election.

The Company has not adopted a policy in relation to the retirement or tenure of directors.

The appointment of the Company Secretary is a matter for the Board. Information on the skills, experience and qualifications of the Company Secretary can be found in the Directors' Report.

Evaluation of the performance of the Board, its committees and individual directors

The performance of the Board, its committees and individual directors are evaluated in accordance with the Performance Evaluation Process. Performance evaluations of the Board, the Nomination and Remuneration Committee, the Audit and Risk Committee and individual directors have taken place in the reporting period and were carried out in accordance with the process disclosed.

Induction and education

When appointed to the Board, a new director will receive an induction appropriate to their experience. Directors may participate in continuing education to update and enhance their skills and knowledge from time to time, as considered appropriate.

Access to information and advice

Directors are entitled to request and receive such additional information as they consider necessary to support informed decision-making. The Board also has a policy under which individual directors and Board committees may obtain independent professional advice at the Company's expense in relation to the execution of their duties, after consultation with the Chairman.

The Company's Constitution, Nomination and Remuneration Committee Charter and the policy for Appointment and Selection of New Directors are available on the Dragon Energy website.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

The Code of Conduct applies to all directors and officers of the Company. It sets out Dragon Energy's commitment to successfully conducting the business in accordance with all applicable laws and regulations while demonstrating and promoting the highest ethical standards. The Code of Conduct reflects the matters set out in the commentary and guidance for Recommendation 3.1.

Diversity Policy

The Board has adopted a Diversity Policy which sets out the Company's aims and practices in relation to recognising and respecting diversity in employment. The Policy reinforces the Company's commitment to actively managing diversity as a means of enhancing the Company's performance by recognising and utilising the contributions of diverse skills and talent from its employees.

The Diversity Policy reflects the matters set out in the commentary and guidance for Recommendation 3.2.

Gender Diversity

The Board is responsible for establishing and monitoring on an annual basis the achievement against gender diversity objectives and strategies, including the representation of women at all levels of the organisation.

The proportion of women within the whole organisation as at the date of this report are as follows:

	%
Women employees in the whole organisation	27%
Women in Senior Executive positions	N/A
Women on the Board of Directors	0%

The Board acknowledges the absence of female participation on the Board of Directors. However, as noted above, the Board has determined that the composition of the current Board represents the best mix of Directors that have an appropriate range of qualifications and expertise, can understand and competently deal with current and emerging business issues and can effectively review and challenge the performance of management.

The Company is at variance with Recommendation 3.3 in that it has not set or disclosed measurable objectives for achieving gender diversity in accordance with its Diversity Policy. Due to the size of the Company, the Board does not deem it practical to limit the Company to specific targets for gender diversity as it operates in a very competitive labour market where positions are sometimes difficult to fill. However, every candidate suitably qualified for a position has an equal opportunity of appointment regardless of gender, age, ethnicity or cultural background.

The Code of Conduct and Diversity Policy are available on the Dragon Energy website.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and Risk Committee

The Audit and Risk Committee consists of three members, and is chaired by the Chief Financial Officer, Mr Ho.

The Audit and Risk Committee Charter sets out its role, responsibilities and membership requirements. The Charter reflects the matters set out in the commentary and guidance for Recommendation 4.3.

For information on the skills, experience and expertise of the Audit and Risk Committee members, refer to the Directors' Report.

Details of the members and their attendance at meetings of the Audit and Risk Committee are included in the Directors' Report.

The Company is at variance with Recommendation 4.2 in that the Audit and Risk Committee does not consist only of non-executive directors or a majority of independent directors and is not chaired by an independent chairman. The Board considers that this composition is appropriate given the current size of the Company. Furthermore, the Board considers that the Audit and Risk Committee is of a sufficient size and possesses sufficient technical expertise to discharge its mandate effectively.

External auditor

Consistent with its Charter, the Audit and Risk Committee reviews the external auditor's terms of engagement and audit plan, and assesses the independence of the external auditor. The current practice, subject to amendment in the event of legislative change, is for the rotation of the engagement partner to occur every five years.

The Company's independent external auditor is BDO Audit (WA) Pty Ltd (**BDO**). The appointment of BDO was ratified by members at the Annual General Meeting held on 21 January 2008.

The Audit and Risk Committee Charter is available on the Dragon Energy website.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Continuous Disclosure Policy sets out the key obligations of the directors and employees in relation to continuous disclosure as well as the Company's obligations under the Listing Rules and the Corporations Act. The Policy also provides procedures for internal notification and external disclosure, as well as procedures for promoting understanding of compliance with the disclosure requirements for monitoring compliance.

The Policy reflects the matters set out in the commentary and guidance for Recommendation 5.1.

The Continuous Disclosure Policy is available on the Dragon Energy website.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

The Shareholder Communications Policy sets out the Company's aims and practices in respect of communicating with both current and prospective shareholders. The Policy reinforces the Company's commitment to promoting investor confidence by requiring:

- compliance with the continuous disclosure obligations;
- compliance with insider trading laws;
- compliance with financial reporting obligations;
- compliance with shareholder meeting requirements, including the provision of an opportunity for shareholders and other stakeholders to hear from and put questions to the Board, management and auditor of the Company;
- communication with shareholders in a clear, regular, timely and transparent manner; and
- response to shareholder queries in a prompt and courteous manner.

The Policy reflects the matters set out in the commentary and guidance for Recommendation 6.1.

The Shareholder Communications Policy is available on the Dragon Energy website.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk Management Policy

Dragon Energy recognises that risk is inherent to any business activity and that managing risk effectively is critical to the immediate and future success of the Company. As a result, the Board has adopted a Risk Management Policy which sets out the Company's system of risk oversight, management of material business risks and internal control.

Risk oversight

Dragon Energy's risk management framework is supported by the Board of Directors, management and the Audit and Risk Committee. The Board is responsible for approving and reviewing the Company's risk management strategy and policy. Management are responsible for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk. The Audit and Risk Committee also has delegated responsibilities in relation to risk management and the financial reporting process as set out in the Audit and Risk Committee Charter. Further detail regarding the Audit and Risk Committee can be found above at Principle 4: Safeguarding integrity in financial reporting.

Reporting and assurance

When considering the Audit and Risk Committee's review of financial reports, the Board receives a written statement declaration in accordance with section 295A of the *Corporations Act*, signed by the Managing Director and Chief Financial Officer, that the Company's financial reports give a true and fair view, in all material respects with, of the Company's financial position and comply in all material respects with relevant accounting standards. This statement also confirms that the Company's financial reports are founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks.

Similarly, in a separate written statement the Managing Director and the Chairman of the Audit and Risk Committee also confirm to the Board that the Company's risk management and internal control systems are operating effectively in relation to material business risks for the period, and that nothing has occurred since period-end that would materially change the position.

The Risk Management Policy is available on the Dragon Energy website.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Nomination and Remuneration Committee

The Nomination and Remuneration Committee has delegated responsibilities in relation to the Company's remuneration policies as set out in the Nomination and Remuneration Committee Charter. The Charter reflects the matters set out in the commentary and guidance for Recommendation 8.1. Further detail regarding the Nomination and Remuneration Committee can be found above at Principle 2: Structure the board to add value.

Non-executive directors' remuneration policy

The structure of non-executive directors' remuneration is clearly distinguished from that of executives. Remuneration for non-executive directors is fixed. Total remuneration for all non-executive directors, last voted upon by shareholders at the 2007 General Meeting, is not to exceed $500,000 per annum.

Non-executive directors generally do not receive performance related compensation. However, shareholders approved the grant of 4,000,000 options to non-executive directors in March 2008.

Neither the non-executive directors nor the executives of the Company receive any retirement benefits, other than superannuation.

The Company is at variance with Recommendation 8.2 in that the Company's non-executive directors received options as remuneration during the 2009 financial year. The Board considers that the issue of 4,000,000 options as remuneration to the non-executive directors was appropriate at the date of grant. The Board believes it ensured that remuneration was competitive with market standards and provided an incentive to pursue longer term success for the Company. Furthermore, the Board considers the grant of options as remuneration reduced demand on the critical cash resources of the Company at that time, and assisted in ensuring the continuity of service of directors who have extensive knowledge of the Company, its business activities and assets and the industry in which it operates.

Executive directors' remuneration policy

As noted previously, executive directors are employed pursuant to employment agreements. Summaries of these employment agreements are set out in the Remuneration Report.

Further details regarding the remuneration arrangements of the Company are set out in the Remuneration Report.

The checklist below summarises the Company's compliance with the Recommendations.

	Requirement	Comply Yes/ No	Reference/ Explanation
Pr 1	**Lay solid foundations for management and oversight**		
Rec 1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose the functions.	Yes	Website & Page 19
Rec 1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Website & Page 19
Rec 1.3	Companies should provide the information indicated in the Guide to reporting to Principle 1.	Yes	Website & Page 19
Pr 2	**Structure the board to add value**		
Rec 2.1	A majority of the board should be independent directors.	No	Website & Page 20
Rec 2.2	The chairman should be an independent director.	No	Website & Page 20
Rec 2.3	The roles of chairman and chief executive officer should not be exercised by the same individual.	Yes	Website & Page 20
Rec 2.4	The board should establish a nomination committee.	Yes	Website & Page 21
Rec 2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	Website & Page 21
Rec 2.6	Companies should provide the information indicated in the Guide to reporting to Principle 2.	Yes	Website & Page 19 & 20

	Requirement	Comply Yes/ No	Reference/ Explanation
Pr 3	**Promote ethical and responsible decision making**		
Rec 3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: ▪ the practices necessary to maintain confidence in the company's integrity; ▪ the practices necessary to take account of their legal obligations and reasonable expectations of their stakeholders; and ▪ the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	Website & Page 20
Rec 3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	Yes	Website & Page 21
Rec 3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the Diversity Policy and progress towards achieving them.	No	Website & Page 21
Rec 3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Yes	Website & Page 21
Rec 3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Yes	Website & Page 20 & 21
Pr 4	**Safeguard integrity in financial reporting**		
Rec 4.1	The board should establish an audit committee.	Yes	Website & Page 21
Rec 4.2	The audit committee should be structured so that it: ▪ consists only of non-executive directors; ▪ consists of a majority of independent directors; ▪ is chaired by an independent chair, who is not the chair of the board; and ▪ has at least three members.	No	Website & Page 21
Rec 4.3	The audit committee should have a formal charter.	Yes	Website & Page 21
Rec 4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes	Website & Page 21
Pr 5	**Make timely and balanced disclosure**		
Rec 5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior level for that compliance and disclose those policies or a summary of those policies.	Yes	Website & Page 22
Rec 5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Yes	Website & Page 22
Pr 6	**Respect the rights of shareholders**		
Rec 6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Website & Page 22
Rec 6.2	Company should provide the information indicated in the Guide to reporting on Principle 6.	Yes	Website & Page 22

	Requirement	Comply Yes/ No	Reference/ Explanation
Pr 7	**Recognise and manage risk**		
Rec 7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Website & Page 22
Rec 7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes	Website & Page 22
Rec 7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Website & Page 22
Rec 7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes	Website & Page 22
Pr 8	**Remunerate fairly and responsibly**		
Rec 8.1	The board should establish a remuneration committee.	Yes	Website & Page 23
Rec 8.2	The remuneration committee should be structured so that it: ▪ consists of a majority of independent directors; ▪ is chaired by an independent chair; and ▪ has at least three members.	Yes	Website & Page 20 & 23
Rec 8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	No	Website & Page 23
Rec 8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes	Website & Page 23

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2011

	Note	Company 2011 $	Consolidated 2010 $
Revenue from continuing operations	3	249,826	187,547
Other income	3	19,795	1,099
Corporate and administrative expenses		(995,596)	(723,579)
Exploration and evaluation expenses		(398,110)	(695,826)
Exploration and evaluation assets written off	11	(65,147)	(300,000)
Net loss from foreign currency exchange		(340,476)	-
Loss before income tax		**(1,529,708)**	**(1,530,759)**
Income tax expense	5	-	-
Loss for the year		**(1,529,708)**	**(1,530,759)**
Other comprehensive income			
Foreign currency translation differences for foreign operations		-	(2,689)
Other comprehensive income, net of tax		**-**	**(2,689)**
Total comprehensive loss for the year		**(1,529,708)**	**(1,533,448)**
Loss per share for loss attributable to the ordinary equity holders of the company			
Basic loss per share	21	(0.93)	(1.08)

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 above statements of comprehensive income should be read in conjunction with the accompanying notes.

DRAGON ENERGY

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2011

	Note	Company 2011 $	Consolidated 2010 $
CURRENT ASSETS			
Cash and cash equivalents	6	14,657,260	3,437,285
Trade and other receivables	7	40,466	11,141
Held to maturity investments	8	51,163	50,088
Other assets	9	17,779	8,470
Total Current Assets		14,766,668	3,506,984
NON CURRENT ASSETS			
Property, plant and equipment	10	59,577	80,177
Exploration and evaluation assets	11	9,407,204	517,799
Total Non Current Assets		9,466,781	597,976
TOTAL ASSETS		24,233,449	4,104,960
CURRENT LIABILITIES			
Trade and other payables	12	1,575,990	125,539
Provisions	13	61,050	37,862
Loans and borrowings	14	39,921	10,938
Total Current Liabilities		1,676,961	174,339
NON CURRENT LIABILITIES			
Loans and borrowings	14	-	39,920
Other payables	15	1,000,000	-
Total Non Current Liabilities		1,000,000	39,920
TOTAL LIABILITIES		2,676,961	214,259
NET ASSETS		**21,556,488**	**3,890,701**
EQUITY			
Contributed equity	16	25,728,920	6,580,885
Reserves	17	93,500	46,040
Accumulated losses	18	(4,265,932)	(2,736,224)
TOTAL EQUITY		**21,556,488**	**3,890,701**

The above statements of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2011

Consolidated	Contributed Equity $	Share Based Payments Reserves $	Option Premium Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total Equity $
Balance at 1 July 2009	6,580,885	46,040	-	2,689	(1,205,465)	5,424,149
Loss for the year	-	-	-	-	(1,530,759)	(1,530,759)
Deconsolidation of subsidiary	-	-	-	(2,689)	-	(2,689)
Total comprehensive income for the year	-	-	-	(2,689)	(1,530,759)	(1,533,448)
Balance at 30 June 2010	**6,580,885**	**46,040**	**-**	**-**	**(2,736,224)**	**3,890,701**
Company						
Balance at 1 July 2010	**6,580,885**	**46,040**	**-**	**-**	**(2,736,224)**	**3,890,701**
Loss for the year	-	-	-	-	(1,529,708)	(1,529,708)
Foreign currency translation reserve	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(1,529,708)	(1,529,708)
Shares issued	19,214,000	-	-	-	-	19,214,000
Options issued	-	-	47,460	-	-	47,460
Share issue costs	(65,965)	-	-	-	-	(65,965)
Balance at 30 June 2011	**25,728,920**	**46,040**	**47,460**	**-**	**(4,265,932)**	**21,556,488**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

DRAGON ENERGY

STATEMENT OF CASH FLOWS

for the year ended 30 June 2011

	Note	Company 2011 $	Consolidated 2010 $
Cash flows from operating activities			
Interest income		245,743	187,547
Cash payments in the course of operations		(1,409,860)	(1,361,053)
Net cash (outflow) from operating activities	26	(1,164,117)	(1,173,506)
Cash flows from investing activities			
Payments for property, plant & equipment		(20,585)	(68,120)
Payments for exploration expenditure – acquisition costs		(5,589,549)	(450,000)
Payments for exploration expenditure – capitalised costs		(849,856)	(67,799)
Disposal of held to maturity investment		-	3,019,413
Net cash inflow/(outflow) from investing activities		(6,459,990)	2,433,494
Cash flows from financing activities			
Proceeds from the issue of share capital (net)		19,195,496	-
Repayment of borrowings		(10,938)	(9,118)
Net cash inflow/(outflow) from financing activities		19,184,558	(9,118)
Net increase in cash held		**11,560,451**	**1,250,870**
Cash and cash equivalents at the beginning of the financial year	6	3,437,285	2,188,005
Effect of exchange rate changes on cash and cash equivalents		(340,476)	(1,590)
Cash and cash equivalents at the end of the year	6	**14,657,260**	**3,437,285**

The above statement of cash flows should be read in conjunction with the accompanying notes.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The financial report of Dragon Energy Ltd for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of directors on 15 September 2011. Dragon Energy Ltd (the **Company**) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The financial statements of the Company as at and for the year ended 30 June 2010 comprise the Company and its subsidiary (together referred to as the **consolidated entity**). 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 nature of the operations and principal activities of the Company 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 requirements of the Corporations Act 2001, Australian Accounting Standards (AASBs) and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). The financial report of the Company also complies with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

Basis of measurement

The financial statement is prepared on the accruals basis and the historical cost basis. The financial statement is presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

Significant accounting policies

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

Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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:

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. Information may come to light in a later period which results in the asset being written off as it is not considered viable.

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 10.

Deferred taxation

Deferred tax assets in respect of tax losses have not been brought to account as it is not considered probable that future taxable profits will be available against which they could be utilised.

Significant accounting judgements, estimates and assumptions (Cont'd)

Provision for rehabilitation

The company does not have any rehabilitation requirements per any of their tenement licences, and as such, do not recognised any tenement rehabilitation provisions.

Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements comprise the financial statements of Dragon Energy Ltd and its subsidiary as at 30 June 2010 (the **consolidated entity**).

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.

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company 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.

The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from inter-entity transactions have been eliminated in full.

The investment in subsidiary held by Dragon Energy Ltd is accounted for at cost in the separate financial statements of the Company less any impairment charges.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

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.

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 Company's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Company'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.

Foreign currency

Functional and presentation currency

Both the functional and presentation currency of Dragon Energy Ltd is Australian Dollars ($). The Hong Kong subsidiary's functional currency was Hong Kong Dollars which was translated to presentation currency.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation of foreign operations

The assets and liabilities of the Hong Kong subsidiary were translated into Australian Dollars at the rate of exchange ruling at the balance sheet date. The income statements are translated at the average exchange rates for the period.

The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of the foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation will be recognised in the income statement.

Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently at amortised cost less any impairment losses recognised. Collectability of trade receivables is reviewed on an ongoing basis. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Company will not be able to collect all amounts due.

Revenue recognition

Revenue represents interest received and reimbursements of exploration expenditures. Interest income is recognised as it accrues.

Loss per share

Basic loss per share is calculated by dividing the net loss attributable to members of the parent entity for the reporting period by the weighted average number of ordinary shares of the Company.

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 Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company 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 Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Financial instruments (cont'd)

Cash and cash equivalents comprise cash balances and call deposits greater than 3 months are classified as held to maturity investments and valued at amortised costs.

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.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

Exploration and evaluation expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits.

Such costs are determined using estimates of future costs, current legal requirements and technology on an undiscounted basis. Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs are determined on the basis that the restoration will be completed within one year of abandoning the site.

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 Company 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.

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.

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.

Income tax (cont'd)

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 has 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 Statement of Financial Position.

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 Company, 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 are depreciated over the shorter of the asset's useful life and the lease term.

Trade and other payables

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

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.

Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share-based payment transactions

The grant date fair value of options granted to employees (including key management personnel) is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are account for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

Determination of fair values

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

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.

New accounting standards and interpretations

The following new standards and amendments to standards are mandatory for the financial year beginning 1 July 2010:

- Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 5, 8, 101, 107, 117, 118, 136, and 139)
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 3, 7, 121, 128, 131, 132 and 139)
- AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19.

The adoption of these standards did not have any impact in the current period or any prior period and is unlikely to affect future periods.

New accounting standards and interpretations that are not yet mandatory

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard is not expected to impact on the Company's accounting for financial assets as it does not have any available for sale assets. There will be no impact on the Company's accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The Company has decided not to early adopt AASB 9.

(ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009, the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Company will apply the amended

New accounting standards and interpretations that are not yet mandatory (cont'd)

standard from 1 July 2011. When the amendments are applied, the Company will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

(iii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from the Reduced Disclosure Requirements (effective from 1 July 2013)

On 30 June 2010, the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Dragon Energy Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

2. FINANCIAL RISK MANAGEMENT

Overview

The Company has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company'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 in Note 19.

Dragon Energy's risk management framework is supported by the Board, management and the Audit and Risk Committee. The Board is responsible for approving and reviewing the Company's risk management strategy and policy. Management are responsible for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk. The Audit and Risk Committee is responsible for identifying, monitoring and managing significant business risks faced by the Company and considering the effectiveness of its internal control system. Management and the Audit and Risk Committee report to the Board.

The Board has established an overall Risk Management Policy which sets out the Company's system of risk oversight, management of material business risks and internal control.

Financial risk management objectives

The overall financial risk management strategy focuses on the unpredictability of the finance markets and seeks to minimise the potential adverse effects on financial performance and protect future financial security.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents. For the Company it arises from receivables due from subsidiaries.

The Company does not hold any credit derivatives to offset its credit exposure.

Liquidity risk

Liquidity risk arises from the financial liabilities of the Company and the Company's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Board has determined an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and continuously monitoring budgeted and actual cash flows and matching the maturity profiles of financial assets, expenditure commitments and liabilities.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and commodity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

Foreign currency risk

During the previous financial year, the Company was exposed to currency risk on transactions that were denominated in a currency other than the respective functional currencies of the consolidated entity, primarily the Australian dollar (AUD), but also the Hong Kong Dollar (HKD) and the Chinese Renminbi (CNY). The currencies in which these transactions primarily were denominated were AUD and HKD.

The Board does not consider the Company is materially exposed to changes in foreign exchange rates. As a result, the Company does not currently seek to mitigate its foreign currency exposures. Furthermore, as the Company's subsidiary was deregistered during the previous financial year, the Board does not intend to seek to mitigate Dragon's exposure to foreign currency risk.

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

The Board believes the balance date risk exposures are representative of the risk exposure inherent in financial instruments.

Interest rate risk

The Company's exposure to interest rates primarily relates to the Company's cash and cash equivalents and held to maturity investments. The Company manages market risk by monitoring levels of exposure to interest rate risk and assessing market forecasts for interest rates.

Other market price risk

The Company is involved in the exploration and development of mining tenements for minerals. Should the Company successfully progress to a producer, revenues associated with mineral sales, and the ability to raise funds through equity and debt, will have some dependence upon commodity prices.

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 are 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, sell assets to reduce debt or consider payment of dividends to shareholders.

The Board has no current plans to issue further shares on the market.

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 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.

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to any externally imposed capital requirements.

3. REVENUE, INCOME AND EXPENSES	Company 2011 $	Consolidated 2010 $
(a) Revenue		
Interest income	249,826	187,547
(b) Other income		
Foreign currency gains	-	1,099
Write off of trade creditors	19,795	-
	19,795	1,099
(c) Employee benefits expense		
Wages and salaries	991,375	624,907
Superannuation	87,255	61,502
Other employee benefits expense	46,571	17,151
	1,125,201	703,560
(d) Finance costs		
Finance charges payable under finance leases	4,797	6,389
(e) Depreciation included in statement of comprehensive income		
Furniture and fixtures	16,260	4,993
Plant and equipment	587	531
Motor vehicles	24,338	22,714
	41,185	28,238

4. AUDITOR'S REMUNERATION

Audit services:		
BDO Audit (WA) Pty Ltd		
- audit and review of financial reports	34,265	27,478

5. TAXATION

(a) Income tax expense	-	-
(b) Numerical reconciliation between tax expense and pre-tax net loss		
Loss before income tax expense	(1,529,708)	(1,530,759)
Income tax benefit calculated at rates noted in (d) below	458,912	459,228
Tax effect on amounts which are not tax deductible:		
Sundry amounts	(9,766)	(4,218)
Deferred tax asset not brought to account	(449,146)	(455,010)
Income tax expense	-	-

	Company 2011 $	Consolidated 2010 $
(c) Deferred tax assets not brought to account		
Unused tax losses	1,274,249	798,319
Timing differences	9,766	4,218
Capital raising costs in equity	55,111	62,105
Potential at 30%	1,339,126	864,642

(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	577,235	3,437,285
Term deposits	14,080,025	-
	14,657,260	3,437,285

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 19.

7. TRADE AND OTHER RECEIVABLES

Sundry receivables	37,457	11,141
TFN Withholding tax	3,009	-
	40,466	11,141

The Company's exposure to credit risk related to trade and other receivables is disclosed in note 19.

As at 30 June 2011, trade and other receivables do not contain impaired assets and are not past due.

8. OTHER INVESTMENTS

Current

Held to maturity investments	51,163	50,088

Held to maturity investments consist of term deposits.

The Company's exposure to interest rate risks related to other investments is disclosed in Note 19.

9. OTHER ASSETS

Current

Prepaid expenses	17,779	8,470

10. PROPERTY, PLANT AND EQUIPMENT	Furniture & Fixtures	Plant & Equipment	Motor Vehicles	Total $
Year ended 30 June 2011				
At 1 July 2010, net of accumulated depreciation	38,429	555	41,193	80,177
Additions	14,612	5,973	-	20,585
Disposals	-	-	-	-
Depreciation charge for the year	(16,260)	(587)	(24,338)	(41,185)
At 30 June 2011, net of accumulated depreciation	36,781	5,941	16,855	59,577
At 30 June 2011				
Cost	58,125	8,008	97,356	163,489
Accumulated depreciation	(21,344)	(2,067)	(80,501)	(103,912)
Net carrying amount	36,781	5,941	16,855	59,577
Year ended 30 June 2010				
At 1 July 2009, net of accumulated depreciation	1,767	621	37,907	40,295
Additions	41,655	465	26,000	68,120
Disposals	-	-	-	-
Depreciation charge for the year	(4,993)	(531)	(22,714)	(28,238)
At 30 June 2010, net of accumulated depreciation	38,429	555	41,193	80,177
At 30 June 2010				
Cost	43,513	2,035	97,355	142,903
Accumulated depreciation	(5,084)	(1,480)	(56,162)	(62,726)
Net carrying amount	38,429	555	41,193	80,177

The finance lease liabilities disclosed in Note 14 are secured by the leased assets, the motor vehicles.

11. EXPLORATION AND EVALUATION ASSETS	Company 2011 $	Consolidated 2010 $
Exploration, evaluation and development expenditure carried forward in respect of areas of interest (net of amounts written off) (a)	9,407,204	517,799
Reconciliation		
Carrying amount at the beginning of the year	517,799	300,000
Exploration and evaluation expenditure	1,449,411	67,799
Acquisition of Ashburton, Milly Milly and Lee Steere Range Projects	-	450,000
Acquisition of Ausquest Projects	7,505,141	-
Capitalised expenditure written off	(65,147)	(300,000)
Carrying amount at the end of the year	9,407,204	517,799

(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 year, the Company wrote off capitalised expenditure totalling $65,147 (2010: $300,000) in respect of an abandoned area of interest.

Exploration and evaluation expenditure immediately expensed in the statement of comprehensive income amount to $398,110 (2010: $695,826).

12. TRADE AND OTHER PAYABLES

	Company 2011 $	Consolidated 2010 $
Trade creditors	24,792	36,211
Other creditors and accruals	51,198	89,328
Accrual of Joint Venture acquisition costs	1,500,000	-
	1,575,990	125,539

The Company's exposure to credit and liquidity risks related to trade and other payables are disclosed in Note 19. Pursuant to the Rocklea Sale Agreement, the Company is obliged to make a cash payment of $1.5m on or before 19 January 2012. Refer Note 20.

13. PROVISIONS

Liability for employee benefits	61,050	37,862
Movements in provisions		
At 1 July	37,862	22,289
Arising during the year	73,009	56,129
Utilised	(1,753)	(2,540)
Unused amounts reversed	(48,068)	(38,016)
At 30 June	61,050	37,862

14. 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 and liquidity risks, see Note 19.

Current

Finance lease liabilities	39,921	10,938

Non-Current

Finance lease liabilities	-	39,921

Terms of loans and borrowings

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 are payable as follows:

	Company		
	Minimum lease payments 2011 $	Interest 2011 $	Principal 2011 $
At 30 June 2011			
Less than one year	40,574	654	39,920
Between one and five years	-	-	-

	Consolidated		
	Minimum lease payments 2010 $	Interest 2010 $	Principal 2010 $
At 30 June 2010			
Less than one year	15,507	4,569	10,938
Between one and five years	40,574	654	39,920
	56,081	5,223	50,858

15. OTHER PAYABLES	Company 2011 $	Consolidated 2010 $
Accrual of Joint Venture acquisition costs	1,000,000	-

Pursuant to the Rocklea Sale Agreement, the Company is obliged to make a final cash payment of $1.0m on or before 19 January 2013. Refer Note 20.

16. ISSUED CAPITAL	Company 2011 $	Consolidated 2010 $
206,426,374 (2010: 142,379,707) fully paid ordinary shares	25,728,920	6,580,885

	2011 Number of Shares	Issue price	2010 Number of Shares	Issue price	2011 $	2010 $
Movements during the year:						
Opening balance	142,379,707		142,379,707		6,580,885	6,580,885
Shares issued on 23 February 2011	64,046,667	$0.30	-		19,214,000	-
Share issue costs	-		-		(65,965)	-
Closing balance	206,426,374		142,379,707		25,728,920	6,580,885

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.

On a show of hands every holder of ordinary securities present at a shareholder meeting in person or by proxy is, entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Options

Options granted

The following options were granted during or since the end of the year.

Class	Expiry Date	Exercise Price	Number of Options
Listed Options	18 November 2014	$0.35	47,460,245

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
Unlisted Options	31 May 2012	$0.30	11,150,000
Listed Options	18 November 2014	$0.35	47,460,245

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.

17. RESERVES	Company 2011 $	Consolidated 2010 $
Share based payments reserve		
Balance at beginning of the year	46,040	46,040
Share based payments	-	-
Balance at end of the year	46,040	46,040
Foreign currency translation reserve		
Balance at beginning of the year	-	2,689
Currency translation differences	-	(2,689)
Balance at end of the year	-	-
Option premium reserve		
Balance at beginning of the year		
Options issued	47,460	-
Balance at end of the year	47,460	-
TOTAL RESERVES	93,500	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.

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.

Option premium reserve

This reserve comprises of monies raised from issue of 47,460,245 options at $0.001 per option during the share and option entitlement issue in February 2011.

18. ACCUMULATED LOSSES	Company 2011 $	Consolidated 2010 $
Accumulated losses at the beginning of the year	(2,736,224)	(1,205,465)
Loss for the year	(1,529,708)	(1,530,759)
Accumulated losses at the end of the year	(4,265,932)	(2,736,224)

19. FINANCIAL INSTRUMENTS DISCLOSURE

Credit risk

Exposure to credit risk

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

	Company Carrying Amount 2011 $	Consolidated Carrying Amount 2010 $
Cash and cash equivalents	14,657,260	3,437,285
Trade and other receivables	40,467	11,141
Held to maturity investments	51,163	50,088
	14,748,890	3,498,514

19. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

The credit quality is assessed and monitored as follows:

	Equivalent S&P Rating[1]		Internally Rated[2]	
Company				
Credit quality of financial assets	**A+ and above**	**BBB and Below**	**No Default**	**Total**
At 30 June 2011				
Cash and cash equivalents	14,657,260	-	-	14,657,260
Trade and other receivables – current	-	-	40,467	40,467
Trade and other receivables – non current	-	-	-	-
Held to maturity investments	51,163	-	-	51,163
	14,708,423	-	40,467	14,748,890
Consolidated				
At 30 June 2010				
Cash and cash equivalents	3,437,285	-	-	3,437,285
Sundry receivables	-	-	11,141	11,141
Held to maturity investments	50,088	-	-	50,088
	3,488,173	-	11,141	3,498,514

1. The equivalent S&P rating of the financial assets represents that rating of the counterparty with whom the financial asset is held rather than the rating of the financial asset itself.
2. Trade and other receivables consists of GST refundable from the Australian Taxation Office and security bonds and deposits.

Allowance for impairment loss

A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired.

Balance within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

Liquidity risk

The following are the contractual maturities of financial liabilities on an undiscounted basis, including estimated interest payments. Cash flows for assets and liabilities without fixed amount or timing are based on conditions existing at year end.

Company

30 June 2011	Carrying amount	Contractual cash flows	1 year	2-5 years
Financial Assets				
Cash and cash equivalents	14,657,260	14,739,332	14,739,332	-
Trade and other receivables	40,466	7,883	7,883	-
Held to maturity investments	51,163	52,856	32,776	20,080
	14,748,889	14,800,071	14,779,991	20,080
Financial Liabilities				
Finance lease liabilities	39,921	(40,574)	(40,574)	-
Trade and other payables	2,575,990	(2,575,990)	(1,575,990)	(1,000,000)
	2,615,911	(2,616,564)	(1,616,564)	(1,000,000)

Consolidated

30 June 2010	Carrying amount	Contractual cash flows	1 year	2-5 years
Finance lease liabilities	50,858	(56,081)	(15,507)	(40,574)
Trade and other payables	125,539	(125,539)	(125,539)	-
	176,397	(181,620)	(141,046)	(40,574)

19. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Foreign currency risk

Exposure to foreign currency risk

During the 2010 financial year, the parent entity carried an inter-company loan with its subsidiary. The loan was denominated in the functional currency of the subsidiary (HKD), and was translated at reporting date at the prevailing spot rates through the income statement. To the extent appropriate, the parent entity provided for the non-recovery of the loan. The subsidiary was deregistered in the 2010 financial year. The net carrying value (in AUD) of the loan in the financial statements of the parent entity (after provision) at 30 June 2010 was nil.

In February 2011, the Company's major shareholder, Shandong Taishan Sunlight Group Company Limited (Shandong Group), has committed to underwrite a minimum of A$18.0 million for the Rights Issue. The Shandong Group has also fully subscribed for their entitlement under both the Rights Issue and Option Entitlement Issue. As a result, a total of A$19,226,115 were received from the Shandong Group. The majority of the monies were received in functional currency of Shandong Group (CNY) and were translated at reporting date at the prevailing spot rates through the income statement.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2011 $	2010 $	2011 $	2010 $
CNY	6.8206	6.0322	6.8498	5.7863
HKD	-	6.8602	-	6.6340

The following summarises the sensitivity of the Company's financial assets and financial liabilities to foreign currency risk during the 2011 financial year:

	Company 2011			
	-5%		+5%	
	Profit $	Equity $	Profit $	Equity $
Financial instruments in foreign currency				
Financial assets	(400,040)	(400,040)	400,040	400,040
Financial liabilities	-	-	-	-

Interest rate risk

Profile

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was:

	Company	Consolidated
	Carrying Amount	
	2011 $	2010 $
Variable rate instruments		
Financial assets	14,708,423	3,487,373
Financial liabilities	-	-
	14,708,423	3,487,373

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. The Board assessed a 100 basis point movement as being reasonably possible based on short term historical movements. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2010.

19. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Interest rate risk (Cont'd)

A change of 100 basis points in interest rates would have increased or decreased the Company's profit or loss by $147,084 (2010: $34,874).

The weighted average effective interest rate on variable rate instruments was 3.56% in the 2011 financial year.

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.

20. COMMITMENTS

Remuneration commitments

The Company has entered into a 3-year employment agreement with Mr Gang Xu to act as its Managing Director, under which Mr Xu is paid $280,000 per annum (exclusive of superannuation) with effect from 16 May 2011. At 30 June 2011, the unexpired portion of the term of the agreement amounts to $877,450.

With effect from 16 May 2011, the Company has entered into a 3-year employment agreement with Mr Anthony Ho to act as an executive director/ chief financial officer, under which Mr Ho is paid $100,000 per annum (exclusive of superannuation). At 30 June 2011, the unexpired portion of the term of the agreement amounts to $313,375.

Refer to Note 23 for details of these key management personnel transactions during the year.

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 30 June are as follows:

	2011 $	2010 $
Not longer than 1 year	63,232	60,800
Longer than 1 year and not longer than 5 years	152,811	207,733
Longer than 5 years	-	-
	216,043	268,533

Exploration Project commitments

In July 2011 Dragon Energy acquired two projects, applied for a mining lease in August and terminated a JV with Altera Resources Limited (renamed Cokal Limited). Dragon currently holds 9 projects comprising 30 tenements totalling 829km2, including; the Rocklea, Nameless and Ashburton projects in the Pilbara region; the Mt Gibson, Milly Milly, Carters Well, Lee Steere and Meekatharra projects in the Midwest region; and the Yamarna project in the Goldfields-Esperance region.

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.

20. COMMITMENTS (cont'd)

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.

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 km² 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.

The joint venture with Altera Resources Limited (renamed Cokal Limited) was terminated in June 2010. The prolonged grant process of exploration permits in Queensland prevented Dragon from undertaking exploration activities on their chosen targets.

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 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

The Company has certain obligations to perform minimum exploration work on mineral leases held. These obligations may vary over time, depending on the Company's exploration program and priorities. These 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 of the Company which have not been provided for in the financial statements amount to $338,000 per annum.

21. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share at 30 June 2011 was based on the loss attributable to ordinary shareholders of $1,529,708 (2010: $1,530,759) and a weighted average number of ordinary shares outstanding during the year of 164,839,908 (2010: 142,379,707) shares calculated as follows:

Loss attributable to ordinary shareholders	**Company 2011 $**	**Consolidated 2010 $**
Net loss for the year	(1,529,708)	(1,530,759)

Weighted average number of ordinary shares	**Number 2011**	**Number 2010**
Balance at beginning of year	142,379,707	142,379,707
Effect of shares issued on 23 February 2011	22,460,201	-
	164,839,908	142,379,707

Diluted earnings per share must be calculated where potential ordinary shares on issue are dilutive. As the potential ordinary shares on issue would decrease the loss per share in the current period, they are not considered dilutive, and not shown. The number of potential ordinary shares is set out in Note 15.

22. SEGMENT REPORTING

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

30 June 2011	**Mineral Exploration $**	**Corporate and administrative $**	**Company $**
Segment revenue	-	-	-
Other unallocated revenue	-	-	269,621
Total revenue			269,621
Segment result	(463,257)	(1,336,072)	(1,799,329)
Unallocated revenues and expenses	-	-	269,621
Loss before related income tax expense			(1,529,708)
Segment assets as at 30 June 2011	9,407,204	14,826,245	24,233,449
Segment liabilities as at 30 June 2011	2,513,692	163,269	2,676,961

22. SEGMENT REPORTING (cont'd)

30 June 2010	Mineral Exploration $	Corporate and administrative $	Consolidated $
Segment revenue	-	-	-
Other unallocated revenue	-	-	187,547
Total revenue			187,547
Segment result	(995,826)	(722,480)	(1,718,306)
Unallocated revenues and expenses	-	-	187,547
Loss before related income tax expense			(1,530,759)
Segment assets as at 30 June 2010	517,799	3,587,161	4,104,960
Segment liabilities as at 30 June 2010	7,591	206,668	214,259

23. KEY MANAGEMENT PERSONNEL

Key management personnel compensation

	Company 2011 $	Consolidated 2010 $
Short-term employee benefits	600,545	525,450
Post-employment benefits	60,564	54,190
Other benefits	-	-
	661,109	579,640

Detailed remuneration disclosures are provided in the Remuneration Report on pages 15 to 18.

Options holdings of key management personnel

	Held at 1 July 2010	Granted as compensation	Exercised	Other changes	Held at date of resignation	Held at 30 June 2011	Vested during the year	Vested and exercisable at 30 June 2011
Directors								
Mr J Chen	-	-	-	-	N/A	-	-	-
Mr G Xu	-	-	-	4,532,069	N/A	4,532,069	-	-
Mr Q Guo	-	-	-	-	N/A	-	-	-
Mr A Ho	500,000	-	-	-	N/A	500,000	-	500,000
Mr W Zeng (i)	1,000,000	-	-	83,334	1,083,334	N/A	-	-
Executive								
Ms K Logan(ii)	-	-	-	200,000	N/A	200,000	-	-

	Held at 1 July 2009	Granted as compensation	Exercised	Other changes	Held at date of resignation	Held at 30 June 2010	Vested during the year	Vested and exercisable at 30 June 2010
Directors								
Mr J Chen	-	-	-	-	N/A	-	-	-
Mr G Xu	-	-	-	-	N/A	-	-	-
Mr Q Guo	-	-	-	-	N/A	-	-	-
Mr A Ho	500,000	-	-	-	N/A	500,000	-	500,000
Mr W Zeng (i)	1,000,000	-	-	-	N/A	1,000,000	-	1,000,000

(i) Appointed 24 July 2007, resigned 5 May 2011
(ii) Appointed as Company Secretary on 6 July 2010

23. KEY MANAGEMENT PERSONNEL (cont'd)

Shareholdings of key management personnel

2011	Held at 1 July 2010	Held at date of appointment	Purchases	Received on exercise of options	Other changes	Held at date of resignation	Held at 30 Jun 2011
Directors							
Mr J Chen	-	N/A	-	-	-	N/A	-
Mr G Xu	13,596,207	N/A	-	-	-	N/A	13,596,207
Mr Q Guo	-	N/A	-	-	-	N/A	-
Mr A Ho	-	N/A	-	-	-	N/A	-
Mr W Zeng (i)	250,000	N/A	-	-	-	250,000	N/A
Executive							
Ms K Logan (ii)	600,000	N/A	-	-	-	N/A	600,000

2010	Held at 1 July 2009	Held at date of appointment	Purchases	Received on exercise of options	Other changes	Held at date of resignation	Held at 30 Jun 2010
Directors							
Mr J Chen	N/A	-	-	-	-	N/A	-
Mr G Xu	13,596,207	N/A	-	-	-	N/A	13,596,207
Mr Q Guo	N/A	-	-	-	-	N/A	-
Mr A Ho	N/A	-	-	-	-	N/A	-
Mr W Zeng	250,000	N/A	-	-	-	N/A	250,000

(i) Appointed 24 July 2007, resigned 5 May 2011
(ii) Appointed as Company Secretary on 6 July 2010

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

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.

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

The aggregate amount recognised during the year relating to key management personnel and their related parties were as follows:

Director	Transaction	Transactions value for the year ended 30 June 2011	2010	Balance outstanding as at 30 June 2011	2010
Mr A Ho	Company secretarial and accounting fees[1]	62,298	58,831	4,583	11,367
	Consultancy fees[2]	20,651	-	-	-

Notes in relation to the table of related party transactions

1. A company associated with Mr Ho provides company secretarial and accounting services in connection with the operations of the Company. Terms for such services are based on market rates, and amounts are payable on a monthly basis.
2. A company associated with Mr Ho provided consultancy services in respect of the Company's capital raising in February 2011. Terms for such services were based on market rates.

During the 2011 financial year, Shandong Taishan Sunlight Group Company Limited (the **Shandong Group**), a company of which Mr Chen is chairman, increased its interest from 56% to 70% in Dragon Energy. The Shandong Group invested $19,226,115 in return for 64,020,384 fully paid ordinary shares and 20,000,000 options exercisable at $0.35 each before 18 November 2014 in the capital of the Company pursuant to the share and option entitlement issue in February 2011.

There were no other key management personnel transactions during the 2010 or 2011 financial years.

24. RELATED PARTY DISCLOSURES

(a) Subsidiaries

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.

(b) Ultimate parent

Dragon Energy Ltd is the ultimate Australian parent entity and the ultimate parent of the consolidated entity is Shandong Taishan Sunlight Group Company Limited, which was incorporated in the People's Republic of China and owns 70.25% of Dragon Energy Ltd.

(c) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in Note 23.

(d) Loans to related parties

No loans were advanced during the reporting period.

No dividends were received from the subsidiary in the 2010 financial year.

The subsidiary was deregistered during the 2010 financial year.

25. PARENT ENTITY INFORMATION

The following details information related to the parent entity, Dragon Energy Ltd, at 30 June 2011. The information presented has been prepared using accounting policies as disclosed in Note 1.

Statement of financial position

	2011 $	2010 $
CURRENT ASSETS		
Cash and cash equivalents	14,657,260	3,437,285
Trade and other receivables	40,466	11,141
Held to maturity investments	51,163	50,088
Other assets	17,779	8,470
Total Current Assets	14,766,668	3,506,984
NON CURRENT ASSETS		
Property, plant & equipment	59,577	80,177
Exploration and evaluation assets	9,407,204	517,799
Total Non Current Assets	9,466,781	597,976
TOTAL ASSETS	21,733,449	4,104,960
LIABILITIES		
Trade and other payables	1,575,990	125,539
Provisions	61,050	37,862
Loans and borrowings	39,921	10,938
Total Current Liabilities	1,676,961	174,339
NON CURRENT LIABILITIES		
Loans and borrowings	-	39,920
Other payables	1,000,000	
Total non-current liabilities	1,000,000	39,920
TOTAL LIABILITIES	2,676,961	214,259
NET ASSETS	**21,556,488**	**3,890,701**
EQUITY		
Contributed equity	25,728,920	6,580,885
Reserves	93,500	46,040
Accumulated losses	(4,265,932)	(2,736,224)
TOTAL EQUITY	**21,556,488**	**3,890,701**

Statement of comprehensive income

	2011	2010
Loss for the year	(1,529,708)	(1,531,858)
Other comprehensive income	-	-
Total comprehensive loss for the year	(1,529,708)	(1,531,858)

26. RECONCILIATION OF CASH FLOWS USED IN OPERATING ACTIVITIES	Company 2011 $	Consolidated 2010 $
Cash flows from operating activities		
Loss for the year	(1,529,708)	(1,530,759)
Adjustments for:		
Depreciation	41,185	28,238
Capitalised expenditure written off	65,147	300,000
Foreign exchange gain/loss	340,476	(1,099)
Operating loss before changes in working capital and provisions	(1,082,900)	(1,203,620)
Change in trade and other receivables	(30,401)	6,971
Change in trade and other payables	(64,695)	3,315
Change in prepayments	(9,309)	4,256
Change in provisions	23,188	15,572
Net cash used in operating activities	(1,164,117)	(1,173,506)

27. CONTINGENT LIABILITIES

The Company has no contingent liabilities at balance date.

28. EVENTS SUBSEQUENT TO BALANCE DATE

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 Company, the results of those operations, or the state of affairs of the Company in future financial years.

DIRECTORS' DECLARATION

In the opinion of the directors of Dragon Energy Ltd:

(a) the financial statements and notes, and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 1 to 13, are in accordance with the Corporations Act 2001, including:

 (i) giving a true and fair view of the Company's financial position as at 30 June 2011 and of its 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; and

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

(c) 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 year ended 30 June 2011.

Signed in accordance with a resolution of the directors:

Dated at Perth, Western Australia this 15 day of September 2011.

Xu Gang

Gang Xu
Managing Director

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

Report on the Financial Report

We have audited the accompanying financial report of Dragon Energy Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, 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.

BDO

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 financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in page 15 to 18 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Dragon Energy Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO Audit

C Burton

Chris Burton
Director

Perth, Western Australia
Dated this 15th day of September 2011

DRAGON ENERGY

SHAREHOLDER INFORMATION

Details of shares and options as at 14 September 2011:

Top holders

The 20 largest registered holders of each class of equity security as at 14 September 2011 were:

Fully paid ordinary shares

	Name	No. of Shares	%
1.	Shandong Taishan Sunlight Group Company Limited	145,020,384	70.25
2.	Mr Gang Xu & Mrs Qiong Liu <Xu & Liu Family A/C>	8,010,000	3.89
3.	Chen & Xing Pty Ltd <Super Fund A/C>	5,586,207	2.72
4.	Renfeng Zhang	5,000,000	2.42
5.	Serng Yee Liew	4,400,000	2.13
6.	Jiangxi Zhonghe Mining Development Co Ltd	4,000,000	1.94
7.	Aylworth Holdings Pty Ltd <J & RD Borshoff Family A/C>	1,000,000	0.48
8.	Jixue Jian	1,000,000	0.48
9.	Mentech Enterprises Group Pty Ltd	1,000,000	0.48
10.	Westessa Holdings Pty Ltd	1,000,000	0.48
11.	Shuxian Liu	800,000	0.39
12.	Ms Cui Ying Cen	750,000	0.36
13.	Guihua Zhang	737,300	0.36
14.	Ms Gillian Swaby	700,000	0.34
15.	Mrs Sheryl Annette Hogg	680,000	0.33
16.	Ms Karen Teresa Logan	600,000	0.29
17.	Mr Chuanshui Yin	600,000	0.29
18.	Ms Shu Bin Chen	500,000	0.24
19.	Pacway Investments Pty Ltd	500,000	0.24
20.	Ms Rui Su	500,000	0.24
		182,383,891	88.35

Options exercisable at $0.35 on or before 18 November 2014

	Name	No. of Options	%
1.	Shandong Taishan Sunlight Group Company Limited	20,000,000	42.14
2.	Jixue Jian	7,000,000	14.75
3.	Mr Gang Xu & Mrs Qiong Liu <Xu & Liu Family A/C>	2,670,000	5.64
4.	Chen & Xing Pty Ltd <Super Fund A/C>	1,862,069	3.93
5.	Renfeng Zhang	1,666,667	3.51
6.	Serng Yee Liew	1,466,667	3.09
7.	Jiangxi Zhonghe Mining Development Co Ltd	1,333,334	2.81
8.	Guihua Zhang	1,045,767	2.20
9.	Mr Peter Lance Dillon	650,000	1.37
10.	Mr Mark Hafer	500,000	1.05
11.	Mr Henry Kwok Tai Ng	500,000	1.05
12.	Hongshan Zhang	500,000	1.05
13.	Lin Liu	492,834	1.04
14.	Guanpeng Li	483,334	1.02
15.	JIan Zhang	400,000	0.84
16.	Mentech Enterprises Group Pty Ltd	333,334	0.70
17.	Goffacan Pty Ltd <KMM Family A/C>	266,668	0.56
18.	Shuxian Liu	266,667	0.56
19.	Ms Weili Mian	260,469	0.55
20.	Ms Cui Ying Cen	250,001	0.53
		41,947,811	88.39

Options exercisable at $0.30 on or before 31 May 2012

	Name	No. of Options	%
1.	Shandong Taishan Sunlight Group Company Limited	6,250,000	56.05
2.	Mr Nigel Bruce Clark	2,000,000	17.94
3.	Ms Cui Ying Cen	1,000,000	8.97
4.	Ms Alice McCleary	1,000,000	8.97
5.	Hox5 Pty Ltd <A & K Ho Super Fund A/C>	500,000	4.47
6.	Mr Peter lance Dillon	100,000	0.90
7.	Mr Wei Dong Ji	100,000	0.90
8.	Ms Deng Ping Mao	100,000	0.90
9.	Mr Dehong Yu	100,000	0.90
		11,150,000	100.00

Distribution schedules

A distribution schedule of each class of equity security as at 14 September 2011:

Fully paid ordinary shares

Range			Holders	Units	%
1	-	1,000	3	701	0.00
1,001	-	5,000	16	51,006	0.02
5,001	-	10,000	432	4,304,301	2.09
10,001	-	100,000	72	2,805,111	1.36
100,001	-	Over	77	199,265,255	96.53
Total			600	206,426,374	100.00

Options exercisable at $0.30 each on or before 31 May 2012

Range			Holders	Units	%
1	-	1,000	0	0	0.00
1,001	-	5,000	0	0	0.00
5,001	-	10,000	0	0	0.00
10,001	-	100,000	4	400,000	3.59
100,001	-	Over	5	10,750,000	96.41
Total			9	11,150,000	100.00

Options exercisable at $0.35 each on or before 18 November 2014

Range			Holders	Units	%
1	-	1,000	4	2,273	0.00
1,001	-	5,000	16	54,223	0.11
5,001	-	10,000	2	16,334	0.04
10,001	-	100,000	25	1,189,594	2.51
100,001	-	Over	48	46,197,821	97.34
Total			95	47,460,245	100.00

Substantial shareholders

The names of substantial shareholders and the number of shares to which each substantial shareholder and their associates have a relevant interest, as disclosed in substantial shareholding notices given to the Company, are set out below:

Substantial shareholder	Number of Shares
Shandong Taishan Sunlight Group Company Limited	145,020,384
Mr Gang Xu	13,596,207

Restricted Securities

There are no restricted securities as at 14 September 2011.

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 5,000 as at 14 September 2011):

Holders	Units
16	36,707

Voting Rights

The voting rights attaching to ordinary shares are:

On a show of hands, every member present in person or by proxy shall have one vote, and upon a poll, each share shall have one vote.

Options do not carry any voting rights.

On-Market Buy Back

There is no current on-market buy-back.