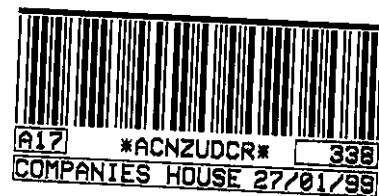


DRAGON EQUITIES LIMITED

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1998

COMPANY REGISTRATION NO: 3110211



DRAGON EQUITIES LIMITED

REPORT AND FINANCIAL STATEMENTS 1998

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DRAGON EQUITIES LIMITED
REPORT AND FINANCIAL STATEMENTS 1998
OFFICERS AND PROFESSIONAL ADVISORS

DIRECTOR

Anthony J Williams

SECRETARY

J M Roberts ACA

REGISTERED OFFICE

22 Grosvenor Square
London
W1X 9LF

BANKERS

National Westminster Bank plc
16 Library Place
St Helier
Jersey
JE4 8NH

SOLICITORS

Thompson Smith & Puxon
4 & 5 North Hill
Colchester
Essex
CO1 1EB

AUDITORS

Fisher, Sassoon & Marks
Farley Court
Allsop Place
London
NW1 5LG

DRAGON EQUITIES LIMITED**DIRECTORS' REPORT**

The director presents his report and the audited financial statements for the year ended 31 March 1998.

PRINCIPAL ACTIVITY

The principal activities of the company in the year under review was that of investing in mining companies, and providing advisory services.

No significant change in the nature of the activities is anticipated in the future.

REVIEW OF THE BUSINESS

The net profit after providing for taxation amounted to £400,922 (1997: 532,366). The future prospects of the company depend on the prospects of the Dragon group as a whole. There is no reason why the group should not continue to prosper.

DIVIDENDS

No dividends were paid during the year and the directors do not recommend the payment of a final dividend.

POST- BALANCE SHEET EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly effect the operations of the company, the result of those operations or the state of affairs of the company.

DIRECTORS AND THEIR INTERESTS

The director who held office during the year and his beneficial interests in the share capital of the company and the ultimate parent company at the balance sheet date and the date of appointment (if earlier) was as follows:

	Dragon Equities Limited		Dragon Capital Holdings Limited	
	No of ordinary shares of £1 each		No of ordinary shares of £1 each	
	1998	1997	1998	1997
Anthony J Williams	-	-	2	2

YEAR 2000

The company shall in the ensuing year be reviewing its computer systems and other relevant parties.

AUDITORS

A resolution to reappoint Fisher, Sassoon & Marks as auditors to the company will be proposed at the annual general meeting.

Approved by the Sole Director
and signed on behalf of the board.

Anthony J Williams

Chairman

~~October 1998~~

20-1-99

A. J. Williams.

DRAGON EQUITIES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the director to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. He is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DRAGON EQUITIES LIMITED
AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 5 to 10 which have been prepared under the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

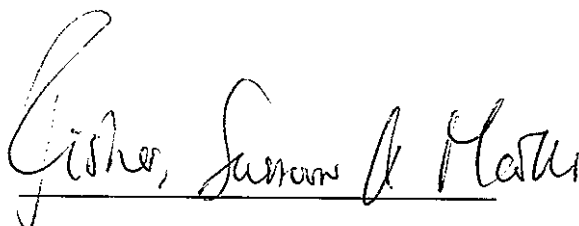
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 1998 and of its profit for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.



20.1.99

Fisher, Sassoon & Marks
Registered Auditors
Farley Court
Allsop Place
London
NW1 5LG

DRAGON EQUITIES LIMITED**PROFIT AND LOSS ACCOUNT****YEAR ENDED 31 MARCH 1998**

	<u>NOTES</u>	1998 £	1997 £
<u>TURNOVER</u>	2	592,948	
Administrative expenses		(193,893)	(582,706)
Other operating income		-	25,000
		<hr/>	<hr/>
<u>OPERATING PROFIT/(LOSS)</u>		399,055	(557,706)
Interest receivable	4	2,149	25,364
Interest payable and similar charges	5	(282)	(24)
		<hr/>	<hr/>
<u>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</u>		400,922	(532,366)
Tax on profit/(loss) on ordinary activities	6	-	-
		<hr/>	<hr/>
<u>PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION</u>		400,922	(532,366)
Retained loss brought forward		(585,950)	(53,584)
		<hr/>	<hr/>
Retained profit carried forward		(185,028)	(585,950)
		<hr/>	<hr/>

All activities relate to continuing operations.

The company has no recognised gains or losses other than the loss for the current financial year and previous financial years.

DRAGON EQUITIES LIMITED
BALANCE SHEET AS AT 31 MARCH 1998

	<u>NOTES</u>	1998 £	1997 £
<u>FIXED ASSETS</u>			
Investments	8	195,659	203,029
		<hr/>	<hr/>
<u>CURRENT ASSETS</u>			
Debtors	7	994,314	1,073,180
Cash at bank and in hand		28,216	13,424
		<hr/>	<hr/>
		1,022,530	1,086,604
<u>CREDITORS: amounts falling due within one year</u>	9	(449,942)	(232,592)
		<hr/>	<hr/>
<u>NET CURRENT ASSETS</u>		572,588	854,012
		<hr/>	<hr/>
<u>TOTAL ASSETS LESS CURRENT LIABILITIES</u>		768,247	1,057,041
		<hr/>	<hr/>
<u>CREDITORS: amounts falling after more than one year</u>	10	(953,273)	(1,642,989)
		<hr/>	<hr/>
<u>NET LIABILITIES</u>		(185,026)	(585,948)
		<hr/>	<hr/>
<u>CAPITAL AND RESERVES</u>			
Called up share capital	11	2	2
Profit and loss account		(185,028)	(585,950)
		<hr/>	<hr/>
<u>TOTAL EQUITY SHAREHOLDERS' FUNDS</u>	12	(185,026)	(585,948)
		<hr/>	<hr/>

These financial statements were approved and signed by the sole director on 20-10 1999

A. J. Williams

Anthony J Williams

Chairman

DRAGON EQUITIES LIMITED
NOTES TO THE ACCOUNTS
YEAR ENDED 31 MARCH 1998

1. ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with statements of accounting practice issued by UK accounting bodies.

Accounting convention

The financial statements are prepared under the historical cost convention and as a going concern which assumes the continued financial support of the company director.

Cash flow

The accounts do not include a cash flow statement because the company, as a small reporting entity, is exempt from the requirement to prepare such a statement under the revised Financial Reporting Standard 1 "Cash Flow statements".

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the rates ruling at that date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. These translation difference are dealt with in the profit and loss account.

Investments

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value.

Related Party Transaction

Transactions with entities that are subsidiaries of Dragon Capital Holdings Limited are exempt from disclosure under Financial Reporting Statement No. 8 Related Party Disclosure, as this information is included in the consolidated accounts of Dragon Capital Holdings Limited, the ultimate parent company.

Turnover

Turnover represents fees from advisory services is in the year net of VAT.

2 ANALYSIS OF TURNOVER

	1998 £	1997 £
Sale of mining investment	385,802	-
Advisory Fees	207,146	-
	<u>592,948</u>	<u>-</u>

All services were supplied to overseas companies. During the year the company sold shares originally acquired for \$1 for \$625,000

3. OPERATING PROFIT/(LOSS)

The operating loss is stated after charging:

	1998 £	1997 £
Loss on foreign exchange	13,314	23,989
Auditors' remuneration	-	3,000
	<u>-</u>	<u>-</u>

Audit fees have been borne by the ultimate holding company.

DRAGON EQUITIES LIMITED
NOTES TO THE ACCOUNTS
YEAR ENDED 31 MARCH 1998

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1998 £	1997 £
Directors' emoluments	160,000	175,000

The company has no employees (1997:0)

5. INTEREST RECEIVABLE

	1998 £	1997 £
Bank interest	2,149	25,364

6. TAX LOSS ON ORDINARY ACTIVITIES

	1998 £	1997 £
Total tax charge for the year	-	-

7. DEBTORS

	1998 £	1997 £
Amounts owed by group undertakings	994,314	1,073,180

8. INVESTMENTS HELD AS FIXED ASSETS

	Shares in subsidiary undertak- ings £	other Invest- ments £	Total £
Cost			
At 31 March 1997	1,000	202,209	203,029
Disposals	-	(7,370)	(7,370)
	-----	-----	-----
At 31 March 1998	1,000	194,659	195,659

A provision has been made against the carrying value of two of the company's investments to reflect their estimated current value.

DRAGON EQUITIES LIMITED
NOTES TO THE ACCOUNTS
YEAR ENDED 31 MARCH 1998

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £	1997 £
Trade creditors	40,000	40,000
Amounts owes to other group undertakings	406,942	189,092
Directors current accounts	-	500
Accruals and deferred income	3,000	3,000
	<u>449,942</u>	<u>232,592</u>

10. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1998 £	1997 £
Loan from director	<u>953,273</u>	<u>1,642,989</u>

The above loan is interest free and repayable wholly after five years

11. CALLED UP SHARE CAPITAL

	1998 £	1997 £
Authorised 100,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Allotted, called up and fully paid 2 Ordinary shares of £1 each	<u>2</u>	<u>2</u>

12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Profit/(Loss) for the financial year	400,922	(532,366)
Net increase (reduction) to shareholders' funds	400,922	(532,366)
Opening shareholders' funds	(585,948)	(953,582)
Closing shareholders' funds	<u>(185,026)</u>	<u>(585,948)</u>

DRAGON EQUITIES LIMITED
NOTES TO THE ACCOUNTS
YEAR ENDED 31 MARCH 1998

13. ULTIMATE PARENT COMPANY

The ultimate holding company and controlling entity is Dragon Capital Holdings Limited, a company incorporated in England and Wales on 16 October 1995.

The group financial statements of this company may be obtained from:

The Company Secretary
 Dragon Capital Holdings Limited
 22 Grosvenor Square
 London
 W1X 9LF.

14. ADDITIONAL INFORMATION ON SUBSIDIARY UNDERTAKINGS AND OTHER INVESTMENTS

Shares in subsidiary undertakings

The company is the registered holder of 1000 common shares of Can \$1 each in its wholly owned subsidiary, 1134130 Ontario Limited, a company incorporated under the laws of Ontario, Canada.

Under section 228 of the Companies Act 1985, group accounts are not required as the company is a subsidiary of Dragon Capital Holdings Limited which prepares consolidated financial statements. Consequently these financial statements present information about the individual company only and not the group.

Other investments

The company also held options to purchase the following companies which were exercisable at the year end and continue to be so up to the expiry dates shown below:

Company	Country of incorporation	Number of ordinary shares	Cost £	Exercise Price	Expiry Date	Nature of business
Chivor Emerald Corporation Limited	British Virgin Islands	500,000	-	US\$0.10	1 December 2000	Emerald Mining
Kazakhstan Minerals Corporation	Canada	1,000,000	1	US\$1.00	26 December 2000	Mining
Arian	Canada	1,000,000	1	US\$1.00	8 December 2000	Mining