

Registered number: 05890789

LOTUS RESOURCES PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2007

LOTUS RESOURCES PLC

COMPANY INFORMATION

Directors S J Longworth . Chief Executive
J P Benson
Dr Y Wang
L Lu

Secretary J P Benson

Company number 05890789

Registered office Tower Bridge House
St Katharine's Way
London
E1W 1DD

Auditor Mazars LLP
Chartered Accountants
Clifton Down House
Beaufort Buildings
Clifton Down
Clifton
Bristol
BS8 4AN

Bankers HSBC
69 Pall Mall
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Solicitors Burges Salmon LLP
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LOTUS RESOURCES PLC

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LOTUS RESOURCES PLC

CHIEF EXECUTIVE'S STATEMENT

I am pleased to announce the first results of the company for the fourteen months ending 30 September 2007.

The company was formed to take advantage of the various opportunities in the Chinese mining sector utilising the experience of a number of the co-founders and shareholders. The company's objective is to build a medium scale mining and exploration company within 3 years with a balanced portfolio of properties and product commodities.

In May 2007 we appointed VSA Capital Ltd as our corporate advisors, with a view to obtaining a listing on Plus markets. In June 2007 VSA Capital raised £75,000 at 1p per share and in December 2007 successfully completed a further fundraising of £225,000 from the issue of 7.5 million shares at 3p per share and introduced the company to Plus markets where the shares are now trading.

I would like to thank the co-founders and shareholders who have been very supportive during these important initial stages in the company's development and I look forward to the future with great confidence.

Simon Longworth
Chief Executive
25th February 2008

LOTUS RESOURCES PLC

DIRECTORS' REPORT FOR PERIOD ENDED 30 SEPTEMBER 2007

The directors present their report and the financial statements for the period ended 30 September 2007.

Principal activity

Lotus Resources PLC is a UK registered holding company whose principal activity is to identify and acquire mining and exploration companies in China whose operations are not currently realising their full potential.

Review of the business

The company was incorporated on the 28th July 2006 and therefore this is the first year of trading for the company. The directors expect growth in the business in the coming year and are satisfied with the results for this year as they are in line with expectations.

Non-financial key performance indicators

It is the company's intention when an acquisition is completed to seek to ensure that responsible business practice is fully integrated into the management of all its operations and into the culture of all its business. It believes that the consistent adoption of responsible business practice is essential for operational excellence, which in turn is expected to ensure the delivery of its core objectives of sustained real growth in future profitability.

Results

For the period to 30 September 2007 the company made a loss of £228,806

Financial risk management objectives and policies

The overriding financial risk to the company during the year was that of liquidity. At the current stage of the company's development its activities necessarily entail cash outflows rather than inflows; the company's major source of funds is likely to be through the injection of new equity capital or a debt facility, or a combination of such sources.

Payment of creditors

The company aims to pay all its creditors promptly. It is the Group's policy to agree the payment terms at the start of business with each supplier, ensure that suppliers are aware of the terms of payment, and pay in accordance with contractual and other legal obligations.

The company had 73 days' purchases outstanding at 30 September 2007 based on the average daily amount invoiced by suppliers during the period.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accepted Accounting Practice (United Kingdom Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;

LOTUS RESOURCES PLC

DIRECTORS' REPORT FOR PERIOD ENDED 30 SEPT EMBER 2007

- State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company. They are 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in the annual reports may differ from legislation in other jurisdictions.

So far as each of the directors is aware at the time the report is approved:

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Directors

The directors who served during the period and their interests in the company's issued share capital were:

| | Ordinary shares of 1p each | |
|---------------------------------|----------------------------|----------|
| | 30/09/07 | 28/07/06 |
| S J Longworth . Chief Executive | 3,673,217 | - |
| J P Benson | - | - |
| Dr Y Wang | 300,000 | - |
| L Lu | 1,343,750 | - |

Details of any related party payments made to the directors are shown within note 15 of the accounts.

Auditors

The auditors, Mazars LLP, will be proposed for reappointment in accordance with section 385 of the Companies Act 1985.

This report was approved by the board on 25th February 2008 and signed on its behalf.

J P Benson
Director

LOTUS RESOURCES PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LOTUS RESOURCES PLC

We have audited the financial statements of Lotus Resources PLC for the period ended 30 September 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether the financial statements are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Annual Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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.

Unqualified opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2007 and of its loss for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

LOTUS RESOURCES PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LOTUS RESOURCES PLC

Going concern

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the company incurred a net loss of £228,806 during the period ended 30 September 2007 and, as of that date, the company's current liabilities exceeded its total assets by £7,615. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

Mazars LLP

Chartered Accountants

Chartered Accountants
Clifton Down House
Beaufort Buildings
Clifton Down
Clifton
Bristol
BS8 4AN

25th February 2008

LOTUS RESOURCES PLC

PROFIT AND LOSS ACCOUNT FOR PERIOD ENDED 30 SEPTEMBER 2007

| | Note | Period ended 30 September 2007 £ |
|--|----------|---|
| Administrative expenses | | <u>(229,098)</u> |
| Operating loss | 2 | (229,098) |
| Interest receivable | | 295 |
| Interest payable | 5 | <u>(3)</u> |
| Loss on ordinary activities before taxation | | (228,806) |
| Tax on loss on ordinary activities | | <u>-</u> |
| Loss on ordinary activities after taxation | | <u><u>(228,806)</u></u> |
| | | |
| Earnings per share (pence) | 6 | (1.67) |

There were no recognised gains and losses for 2007 other than those included in the profit and loss account.

The companies turnover and expenses all relate to continuing operations.

The notes on pages 9 to 13 form part of these financial statements.

LOTUS RESOURCES PLC

BALANCE SHEET AS AT 30 SEPTEMBER 2007

| | Note | £ | 2007 £ |
|---|------|-----------------|------------------|
| Current assets | | | |
| Debtors | 7 | 39,319 | |
| Cash at bank | | <u>10,907</u> | |
| | | 50,226 | |
| Creditors: amounts falling due within one year | 8 | <u>(57,841)</u> | |
| Net current liabilities | | | <u>(7,615)</u> |
| Total assets less current liabilities | | | <u>(7,615)</u> |
| Capital and Reserves | | | |
| Called up share capital | 9 | | 219,674 |
| Share premium account | 10 | | 1,517 |
| Profit and loss account | | | <u>(228,806)</u> |
| Shareholders' funds | 11 | | <u>(7,615)</u> |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 25th February 2008.

J P Benson
Director

The notes on pages 9 to 13 form part of these financial statements.

LOTUS RESOURCES PLC

CASH FLOW STATEMENT FOR PERIOD ENDED 30 SEPTEMBER 2007

| | Note | Period ended 30 September 2007 £ |
|---|------|---|
| Net cash flow from operating activities | 12 | (210,577) |
| Returns on investments and servicing of finance | 13 | 292 |
| | | <hr/> |
| Cash outflow before financing | | (210,285) |
| Financing | 14 | 221,192 |
| | | <hr/> |
| Increase in cash in the period | | <u>10,907</u> |

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/DEBT FOR PERIOD ENDED 30 SEPTEMBER 2007

| | Period ended 30 September 2007 £ |
|---|---|
| Increase in cash in the period | <u>10,907</u> |
| Movement in net debt in the period | <u>10,907</u> |
| Net funds at 30 September 2007 | <u>10,907</u> |

The notes on pages 9 to 13 form part of these financial statements.

LOTUS RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR PERIOD ENDED 30 SEPT EMBER 2007

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. During the period the company incurred a loss of £228,806 and at the balance sheet date its current liabilities exceeded its current assets by £7,615. The financial statements have been prepared on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future. On 21 December 2007 the company successfully issued 7,500,000 shares at 3p each.

1.2 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the profit and loss account.

1.3 Start up costs

Start up costs are accounted for on a basis consistent with similar costs incurred as part of the company's ongoing business and charged directly to the profit and loss account.

2. Operating loss

The operating loss is stated after charging/(crediting):

| | Period ended 30 September 2007 £ |
|------------------------|---|
| Exchange gain | (988) |
| Auditors' remuneration | <u>3,000</u> |

3. Staff costs

Staff costs, including directors' remuneration, were as follows:

| | Period ended 30 September 2007 £ |
|--------------------|---|
| Wages and salaries | <u>26,203</u> |

LOTUS RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR PERIOD ENDED 30 SEPTEMBER 2007

The average monthly number of employees, including directors, during the period was as follows:

| | Period ended 30 September 2007 No. |
|----------------|---|
| Administration | <u>2</u> |

4. Directors' remuneration

| | Period ended 30 September 2007 £ |
|------------|---|
| Emoluments | <u>13,500</u> |

5. Interest payable

| | Period ended 30 September 2007 £ |
|------------------------------|---|
| On bank loans and overdrafts | <u>3</u> |

6. Earnings per share

| | 2007 pence |
|--------------------|-----------------------|
| Earnings per share | (1.67) |

The basic earnings per ordinary share is calculated by dividing earnings for the year less non-equity dividends and other appropriations in respect of non-equity shares by the weighted average number of equity shares outstanding during the year.

The calculation of basic earnings per ordinary share is based upon the following data:

Earnings

| | 2007 £ |
|---|-------------------|
| Earnings for the purposes of earnings per share | (228,806) |

Number of shares

| | 2007 |
|---|-------------|
| Basic weighted average number of shares | 13,700,299 |

Further ordinary shares have been issued after the balance sheet date as detailed in the Post Balance Sheet Events note (Note 16). These issues do not effect the calculations above.

LOTUS RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR PERIOD ENDED 30 SEPT EMBER 2007

| | |
|---|--------------------------------------|
| 7. Debtors | 2007 |
| | £ |
| Other debtors | 7,968 |
| Prepayments and accrued income | 31,351 |
| | <u>39,319</u> |
| 8. Creditors: Amounts falling due within one year | 2007 |
| | £ |
| Trade creditors | 34,452 |
| Other creditors | 11,479 |
| Accruals and deferred income | 11,910 |
| | <u>£57,841</u> |
| 9. Share Capital | 2007 |
| | £ |
| Authorised | |
| 1,000,000,000 Ordinary shares of 1p each | <u>10,000,000</u> |
| | 2007 |
| | £ |
| Allotted, called up and fully paid | |
| 21,967,413 Ordinary shares of 1p each | <u>219,674</u> |
| On 28 July 2006 8,999,998 1p shares were allotted at par. | |
| On 6 February 2007 2,840,650 1p shares were allotted at par and 141,648 1p shares were allotted at 5p each. | |
| On 19 March 2007 148,200 1p shares were allotted at par and 86,915 1p shares were allotted at 5p each. | |
| On 21 March 2007 200,000 1p shares were allotted at par. | |
| On 21 May 2007 850,000 1p shares were allotted at par. | |
| On 13 June 2007 400,000 1p shares were allotted at par. | |
| On 14 June 2007 7,500,000 1p shares were allotted at par. | |
| On 5 July 2007 800,000 1p shares were allotted at par. | |
| 10. Reserves | Share premium account |
| | £ |
| Premium on shares issued during the period | 9,143 |
| At 30 September 2007 | <u>9,143</u> |

LOTUS RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR PERIOD ENDED 30 SEPTEMBER 2007

| | | | | |
|--|----------------|------------------|-----------------|---------------------|
| 11. Reconciliation of movement in shareholders' funds | | | | 2007 |
| | | | | £ |
| Opening shareholders funds | | | | - |
| Loss for the period | | | | (228,806) |
| Shares issued during the period | | | | 219,674 |
| Share premium on shares issued (net of expenses) | | | | <u>1,517</u> |
| Closing shareholders funds | | | | <u>(7,615)</u> |
| 12. Net cash flow from operations | | | | Period ended |
| | | | | 30 September |
| | | | | 2007 |
| | | | | £ |
| Operating loss | | | | (229,098) |
| Increase in debtors | | | | (39,319) |
| Increase in creditors | | | | <u>57,840</u> |
| Net cash outflow from operations | | | | <u>(210,577)</u> |
| 13. Analysis of cash flows for headings netted in cash flow statement | | | | Period ended |
| | | | | 30 September |
| | | | | 2007 |
| | | | | £ |
| Returns on investments and servicing of finance | | | | |
| Interest received | | | | 295 |
| Interest paid | | | | <u>(3)</u> |
| Net cash inflow from returns on investments and servicing of finance | | | | <u>292</u> |
| | | | | Period ended |
| | | | | 30 September |
| | | | | 2007 |
| | | | | £ |
| Financing | | | | |
| Issue of ordinary shares | | | | <u>221,192</u> |
| 14. Analysis of changes in net debt | | | | |
| | 28 July | | Other | 30 September |
| | 2006 | Cash flow | Non-cash | 2007 |
| | £ | £ | changes | £ |
| | | | £ | |
| Cash at bank and in hand: | 1 - | <u>10,907</u> | - | <u>10,907</u> |
| Net funds | <u>-</u> | <u>10,907</u> | <u>-</u> | <u>10,907</u> |

LOTUS RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR PERIOD ENDED 30 SEPTEMBER 2007

15. Related party transactions

- 15.1** On 4th September 2006 Lotus Resources PLC acquired the entire share capital of Lotus Resources (Xin Zhuang) Limited, a company controlled by S J Longworth, for nil value. The authorised share capital for Lotus Resources (Xin Zhuang) Limited is 10,000 Hong Kong Dollars.
- 15.2** FDUK Limited provides certain professional services to the company, pursuant to an agreement dated 16th March 2007. FDUK Limited is related to the company as Mr J P Benson is a director and shareholder of FDUK Limited. Under the agreement FDUK Limited provides the services of Mr Benson for a daily fee of £500 (plus VAT). The agreement is terminable by either party on 2 months notice. The amount paid to FDUK Limited during the period was £15,750.

16. Post Balance Sheet Events

On 21st December 2007 Lotus Resources PLC gained admission to PLUS Markets and at the same time raised £225,000 through the issue of 7,500,000 Ordinary Shares at 3p each. On 21st December 2007 Starvest PLC was granted warrants over 19,995,000 Ordinary Shares and VSA Resources Ltd was granted warrants over 700,000 Ordinary Shares, exercisable in whole or in part (in tranches of 100,000 Ordinary Shares), at any time up to the third anniversary of Admission, at an exercise price of 3p per Ordinary Share.

In addition, on 18th October 2007 1,050,000 ordinary 1p shares were allotted and issued at par.