

LEYSHON RESOURCES LIMITED
ABN 75 010 482 274

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2006

CORPORATE DIRECTORY

Directors

John Fletcher – Non-Executive Chairman
Paul C Atherley – Managing Director
Stacey Apostolou – Executive Director
Robert Bigland – Non-Executive Director
Richard Seville – Non-Executive Director

Secretary

Stacey Apostolou

Registered and Principal Offices

Australia

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West Perth WA 6005
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Facsimile: (61 8) 9324 8560

China

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Unit 1106, Tower 9
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Chaoyang District
Beijing 100022
Telephone: (86 10) 5869 9382
Facsimile: (86 10) 5869 9384

Share Register

Computershare Investor Services Pty
Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
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Telephone: 1300 557 010
International: (61 8) 9323 2000
Facsimile: (61 8) 9323 2033

Solicitors

Jun He Law Offices – Beijing
Hardy Bowen, Lawyers

Auditor

Deloitte Touche Tohmatsu

Bankers

Bank of China – Beijing
Bank of New Zealand

Stock Exchange Listing

Alternative Investment Market
London Stock Exchange
10 Paternoster Square
London EC4M 7LS

Australian Stock Exchange
Home Branch – Perth
2 The Esplanade
Perth WA 6000

AIM and ASX Code – LRL

DIRECTORS' REPORT

The Board of Directors of Leyshon Resources Limited present their report on the consolidated entity of Leyshon Resources Limited ("the Company" or "Leyshon Resources") and its subsidiaries during the half-year ended 31 December 2006 ("Consolidated Entity").

DIRECTORS

The names of the Directors of Leyshon Resources in office during the half-year and until the date of this report are:

John Fletcher
Paul C Atherley
Stacey Apostolou
Robert Bigland
Richard Seville – appointed 1 February, 2007

REVIEW AND RESULTS OF OPERATIONS

Operating Results

Net operating loss after tax attributable to members of the Consolidated Entity for the half-year ended 31 December 2006 was \$6,709,388 (2005: Net operating loss after tax of \$3,255,295).

Operations

Zheng Guang

A total 29,100 metre drilling programme was completed during the half comprising 16,100 metres of reverse circulation drilling and 13,006 metres of diamond drilling. The programme was one of the largest drilling programmes undertaken in Heilongjiang in recent years.

The programme is expected to increase the initial JORC compliant inferred resource estimate reported in May 2006 of 930,000 ounces gold, 64,000 tonnes zinc and 2.6 million ounces silver (equivalent to 1.2 million ounces of gold based on 1 g/t gold – 1% zinc). The estimate has been made by Hellman and Schofield of Australia and is based on the results from the 2004 and 2005 programmes.

The Company, in conjunction with joint venture partner, the Qiqiha'er brigade of the Heilongjiang Bureau of Mineral Resources, have announced their intention to develop the Zheng Guang gold project as the first ever Sino Foreign owned gold mine in the mineral rich province of Heilongjiang, northeast China.

The project's current scope is as an open cut mine initially treating gold ore to produce approximately 100,000ozpa with annual revenues at current gold prices in excess of US\$60 million.

Operations

Zheng Guang (cont'd)

Revenue and earnings are expected to increase with the commissioning of a zinc flotation circuit in 2011, which is designed to lift gold recovery and allow a zinc concentrate to be produced for sale to Chinese smelters. Optimisation testwork is underway which upon completion in early 2007 will allow zinc production, operating costs and sales terms to be finalised.

Final design studies are underway and are being undertaken by Australian and Chinese consultants.

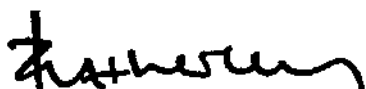
Corporate

The Company raised £8.3 million (A\$20.75 million) during the half through the issue of 37,731,000 ordinary shares at 22 pence (A\$0.55) per share (before issue costs). The placement occurred in two tranches with 23,786,984 being issued immediately and the remaining 13,944,016 being subject to shareholder approval which was received on 17 January 2007.

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires our auditors, Deloitte Touche Tohmatsu, to provide the directors of Leyshon Resources Limited with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is on page 17 and forms part of this Directors' Report.

Signed in accordance with a resolution of Directors.



PAUL ATHERLEY
Director
Beijing, 15 March 2007

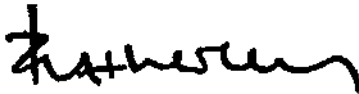
DIRECTORS' DECLARATION

In accordance with a resolution of the directors on 15 March 2007 of Leyshon Resources Limited, I state that:

In the opinion of the directors:

- (a) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including:
 - (i) section 304 (compliance with accounting standards and Corporations Regulations 2001); and
 - (ii) section 305 (true and fair view); and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



PAUL ATHERLEY
Director

Beijing, 15 March 2007

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Note	Half-year Ended 31 Dec 2006 \$	Half-year Ended 31 Dec 2005 \$
Revenue	2	151,364	207,161
Exploration expenses		(5,333,249)	(2,481,222)
Administration expenses		(1,214,146)	(957,475)
Business development expenses		(313,357)	(532,097)
Loss before income tax		(6,709,388)	(3,763,633)
Income tax expense		-	-
Loss for the half-year		(6,709,388)	(3,763,633)
Loss attributable to minority interest		-	508,338
Loss attributable to members of Leyshon Resources Limited		(6,709,388)	(3,255,295)
Earnings Per Share			
Basic loss per share (cents per share)		(4.41)	(2.48)
Diluted loss per share (cents per share)		(4.41)	(2.48)

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2006

	Note	31 Dec 2006 \$	30 Jun 2006 \$
ASSETS			
Current Assets			
Cash and cash equivalents		14,042,909	8,434,899
Trade and other receivables		249,554	119,476
Other		52,354	68,781
Total Current Assets		14,344,817	8,623,156
Non-Current Assets			
Other financial assets		510,000	526,001
Property, plant and equipment		17,492	9,786
Exploration and evaluation expenditure		12,722,473	12,722,473
Total Non-Current Assets		13,249,965	13,258,260
TOTAL ASSETS		27,594,782	21,881,416
LIABILITIES			
Current Liabilities			
Payables		177,602	390,232
Provisions		70,819	40,241
Total Current Liabilities		248,421	430,473
Non-Current Liabilities			
Deferred tax liabilities		3,604,688	3,604,688
Total Non-Current Liabilities		3,604,688	3,604,688
TOTAL LIABILITIES		3,853,109	4,035,161
NET ASSETS		23,741,673	17,846,255
EQUITY			
Issued capital	7	47,294,354	34,866,587
Reserves		6,018,612	5,841,573
Accumulated losses		(29,691,179)	(22,981,791)
Parent entity interest		23,621,787	17,726,369
Minority interest		119,886	119,886
TOTAL EQUITY		23,741,673	17,846,255

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

**CONDENSED CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY**
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Half-year Ended 31 Dec 2006 \$	Half-year Ended 31 Dec 2005 \$
<u>Issued Capital</u>		
Issued and paid up capital - at the beginning of the half-year	34,866,587	28,689,432
Transactions with equity holders in their capacity as equity holders:		
Gross contributions of equity	13,081,860	-
Share issue expenses	(654,093)	-
	12,427,767	-
Issued and paid up capital - at the end of the half-year	47,294,354	28,689,432
<u>Employee Benefit Reserve</u>		
Balance at the beginning of the year	964,169	880,204
Employee benefit expense – Share options	177,038	73,897
Employee benefit reserve at the end of the half-year	1,141,207	954,101
<u>Option Premium Reserve</u>		
Option premium reserve at the beginning of the half-year	3,837,841	3,725,000
Share options	-	-
Option premium reserve at the end of the half-year	3,837,841	3,725,000
<u>Foreign Exchange Reserve</u>		
Foreign exchange reserve at the beginning of the half-year	4,563	-
Exchange differences on translation of foreign operations attributable to members of Leyshon Resources Limited	-	4,563
Foreign exchange reserve at the end of the half-year	4,563	4,563

**CONDENSED CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY**
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

	Half-year Ended 31 Dec 2006 \$	Half-year Ended 31 Dec 2005 \$
<u>Investment Revaluation Reserve</u>		
Investment revaluation reserve at the beginning of the half-year	1,035,000	-
Gain on available for sale investment	-	1,035,000
Investment revaluation reserve at the end of the half-year	1,035,000	1,035,000
<u>Accumulated Losses</u>		
Accumulated losses at the beginning of the half-year	(22,981,791)	(14,834,084)
Adjustment on adoption of AASB 132 and AASB 139, net of tax	-	60,000
Restated balance after adoption of AASB 132 and 139	(22,981,791)	(14,774,084)
Loss for the half-year attributable to members of Leyshon Resources Limited	(6,709,388)	(3,255,295)
Accumulated losses at the end of the half-year	(29,691,179)	(18,029,379)
<u>Minority Interest</u>		
Minority interest at the beginning of the half-year	119,886	117,930
Exchange differences on translation of foreign operations attributable to the minority interest	-	1,956
Loss for the half-year attributable to the minority interest	-	(508,338)
Additions to the minority interest	-	449,367
Minority interest at the end of the half-year	119,886	60,915

**CONDENSED CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY**
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

	Half-year Ended 31 Dec 2006 \$	Half-year Ended 31 Dec 2005 \$
Total recognised income and expense for the half year:		
Exchange differences on translation of foreign operations:		
- Members of Leyshon Resources Limited	-	4,563
- Minority interest	-	1,956
Gain on available for sale investments		1,035,000
Net income recognised directly in equity	-	1,041,519
Loss for the half-year attributable to:		
- Members of Leyshon Resources Limited	(6,709,388)	(3,255,295)
- Minority interest	-	(508,338)
Total recognised income and expense for the half-year	(6,709,388)	(2,722,114)
Attributable to:		
Members of Leyshon Resources Limited	(6,709,388)	(2,215,732)
Minority interest	-	(506,382)

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Half-year ended 31 Dec 2006 \$	Half-year ended 31 Dec 2005 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(6,572,584)	(3,606,185)
Receipts from customers	-	22,337
Interest received	151,364	204,648
Interest paid	(1,725)	(134)
	<u>(6,422,945)</u>	<u>(3,379,334)</u>
Net cash flows used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of plant and equipment	(12,071)	(2,999)
Refunds of security bonds	16,000	7,500
	<u>3,929</u>	<u>4,501</u>
Net cash flows from/(used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	13,081,860	-
Share issue expenses paid	(895,062)	-
	<u>12,186,798</u>	<u>-</u>
Net cash flows from financing activities		
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		
	5,767,782	(3,374,833)
Cash and cash equivalents at the beginning of the half-year	8,434,899	9,488,951
Effects of exchange rate changes on cash and cash equivalents	(159,772)	12,413
	<u>14,042,909</u>	<u>6,126,531</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR		

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report for the interim half-year reporting period ended 31 December 2006 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of Leyshon Resources Limited for the year ended 30 June 2006 and any public announcements made by Leyshon Resources Limited and its subsidiaries during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(a) Basis of preparation of half-year financial report

The condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2006 annual financial report for the year ended 30 June 2006, other than as detailed below.

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006. The adoption of these new and revised standards has resulted in changes to the Group's accounting policies in the following areas:

- Investments at fair value through profit or loss

Limitation of ability to designate financial assets and financial liabilities through profit or loss

The Australian Accounting Standards Board ('AASB') released AASB 2005-4 'Amendments to Australian Accounting Standards' in June 2005. AASB 2005-4 amends AASB 139 "*Financial Instruments: Recognition and Measurement*" by limiting the ability of entities to designate any financial asset or liability as 'at fair value through profit or loss'.

Financial assets that can no longer be designated as 'at fair value through profit or loss' shall be classified into either loans and receivables, held to maturity investments or available-for-sale investments, as appropriate, and measured at amortised cost or at fair value with changes in fair value recognised in equity, depending on classification. Financial liabilities that can no longer be designated as 'at fair value through profit or loss' shall be classified as 'other' financial liabilities and measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Limitation of ability to designate financial assets and financial liabilities through profit or loss (continued)

The changes introduced by AASB 2005-4 are applied by the Group with effect from the beginning of the comparative reporting period presented in this financial report (ie with effect from 1 July 2005). The amendments are made in accordance with the transitional provisions of AASB 2005-4 and result in options held by the Group with a carrying value at 1 July 2005 (the date of designation) of \$255,000 that were previously designated as 'at fair value through profit or loss' being reclassified as available for sale investments. Fair value movements post 1 July 2005 are recognised directly in the investment revaluation reserve.

The impact of this classification is that, in the Group's financial statements, other income for the half-year ended 31 December 2005 decreased by \$1,035,000 and gains recognised in the investment revaluation reserve for the half-year ended 31 December 2005 increased by \$1,035,000 from that which was reported in the 2005 Half-year Financial Report.

	Half-year Ended 31 December 2006 \$	Half-year Ended 31 December 2005 \$
2. REVENUE		
Interest received/receivable	151,364	207,161

3. DIVIDENDS PAID OR PROVIDED FOR

No dividends have been paid or provided for during the half-year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

4. SEGMENT INFORMATION

The Consolidated Entity operates in one business segment, being the mining and exploration of gold and other minerals in the resources sector, in the following geographical segments:

Half-year 2006	<u>Australia</u> Half -Year 2006 \$	<u>China</u> Half -Year 2006 \$	<u>Unallocated</u> Half -Year 2006 \$	<u>Consolidated</u> Half -Year 2006 \$
Revenue				
Total segment revenue	150,655	709	-	151,364
Unallocated revenue	-	-	-	-
Total revenue	150,655	709	-	151,364
Results				
Segment result	(1,593,795)	(5,115,593)	-	(6,709,388)
Unallocated revenue less unallocated expenses	-	-	-	-
Loss before income tax	(1,593,795)	(5,115,593)	-	(6,709,388)

Half-year 2005	<u>Australia</u> Half -Year 2005 \$	<u>China</u> Half -Year 2005 \$	<u>Unallocated</u> Half -Year 2005 \$	<u>Consolidated</u> Half -Year 2005 \$
Revenue				
Total segment revenue	-	-	-	-
Unallocated revenue	-	-	-	-
Total revenue	-	-	-	-
Results				
Segment result	(1,026,836)	(2,943,958)	-	(3,970,794)
Unallocated revenue less unallocated expenses	-	-	207,161	207,161
Profit/(loss) before income tax	(1,026,836)	(2,943,958)	207,161	(3,970,794)

5. SUBSEQUENT EVENTS AFTER BALANCE DATE

Subsequent to the end of the half-year reporting period, the Company received shareholder approval for the second tranche of shares issued as part of the placement undertaken in December 2006. This resulted in the issue of 13,944,016 ordinary fully paid shares at an issue price of 22 pence per share.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

6. CONTINGENT ASSETS AND LIABILITIES

At the last annual reporting date, the Consolidated Entity had the following disclosed contingent liability. There has been no material change in the contingent assets or liabilities of the Consolidated Entity during the half-year.

Historical fixed and floating charge

In June 1987 the Company entered into a joint venture agreement ("JVA") with two other parties. Pursuant to the JVA, a registered cross charge was entered into with the parties to the JVA to secure payment obligations under a joint venture. The joint venture no longer operates but the charge remains registered. The charge was granted in favour of two parties, one of which is deregistered, the other liquidated. The Company does not believe that there is any liability outstanding under the charge, however due to the administrative difficulty in removing the charge resulting from the counterparties being deregistered, the charge may continue to be registered.

7. ISSUANCES, REPURCHASES AND REPAYMENTS OF EQUITY SECURITIES

During the half-year reporting period, Leyshon Resources Limited issued 23,786,984 ordinary shares for a total value before issue costs of \$13,081,860. A further 10,000,000 ordinary shares were issued on conversion of the converting preference shares for a value of \$200,000. There were no other movements in ordinary share capital or other issued share capital of the Company during the current or prior half-year reporting period.

Leyshon Resources Limited issued 1,900,000 options over shares to executives during the period, with details as follows:

Grant date	Number of options	Exercise price (\$)	Expiry date	Vesting date
15 Nov 06	150,000	0.40	30 Nov 09	15 Nov 06
15 Nov 06	825,000	0.40	30 Nov 09	15 May 07
15 Nov 06	925,000	0.55	30 Nov 09	15 Nov 07

The options have a total value of \$685,150 of which \$177,038 has been recognised at 31 December 2006. There were no other movements in share options of the Company during the current or prior half-year reporting period.

Independent Auditor's Review Report to the Directors of Leyshon Resources Limited

We have reviewed the accompanying half-year financial report of Leyshon Resources Limited, which comprises the balance sheet as at 31 December 2006, and the income statement, cash flow statement, statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 4 to 14.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Leyshon Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Deloitte.

Auditor's Independence Declaration

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



A T Richards

Partner

Chartered Accountants

Perth 15 March 2007

The Board of Directors
Leyshon Resources Limited
Ground Floor, 16 Ord Street
West Perth WA 6005

15 March 2007

Dear Directors

Leyshon Resources Limited


In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Leyshon Resources Limited.

As lead audit partner for the review of the financial statements of Leyshon Resources Limited for the half year ended 31 December 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely


DELOITTE TOUCHE TOHMATSU


AT Richards
Partner
Chartered Accountants