

LEYSHON RESOURCES LIMITED
ABN 75 010 482 274

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2007

CORPORATE DIRECTORY

Directors

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

Company Secretary

Stacey Apostolou

Registered and Principal Offices

Australia

36 Outram Street
West Perth WA 6005
Telephone: (61 8) 9321 0077
Facsimile: (61 8) 9322 4073

China

Suite 2502, Tower D
China International Trade Centre
6A Jianguomenwai Avenue
Chaoyang District
Beijing 100022
Telephone: (86 10) 8567 9405
Facsimile: (86 10) 8567 9410

Share Register

Computershare Investor Services Pty
Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000
Australia
Telephone: 1300 557 010
International: (61 8) 9323 2000
Facsimile: (61 8) 9323 2033

Solicitors

Jun He Law Offices – Beijing
Hardy Bowen – Australia

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 2007 ("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
Richard Seville

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 2007 was \$5,751,338 (2006: Net operating loss after tax of \$6,709,388).

Operations

Zheng Guang

Drill Programmes

The Company completed a 43,000 meter diamond and reverse circulation drilling programme during the half-year and work is well underway on a revised resource estimate.

The diamond drilling programme completed 109 holes for 21,400 metres and was focussed on infill drilling in the centre of the Main Ore Zone. The majority of holes intersected strong mineralisation with broad cumulative widths demonstrating good continuity both down dip and between important sections.

The 22,300 metre reverse circulation drilling successfully tested oxide ore zones across the Main Ore Zone and potential new deposits previously identified at 6 geochemical anomalies across the exploration licence. It also included a sterilization programme over the proposed area for the tailings dam.

Exploration

Three additional exploration licences were issued by the Ministry of Lands and Resources covering a highly prospective area adjacent to Zheng Guang. The new licences cover an area of 83 square kilometres close to and along strike from Zheng Guang. The total area now held by the joint venture is 130 square kilometres.

Project Design

The Company's engineering team is working closely with the Changchun Design Institute on the Basic Engineering Design. Gary Patrick of Metallurg Pty Ltd, Australia and Tim Hetherington of EPCM, Hong Kong are working closely with the Changchun design team to ensure that the latest metallurgical concepts are incorporated into the low cost Chinese design.

Gary Patrick has been responsible for the development of a process route which, based on the metallurgical testwork undertaken by AMMTEC of Australia, allows for a single gold/zinc sulphide ore to be mined and fed to a process plant which produces gold and silver dore together with a high grade zinc concentrate.

This development is expected to have significant capital and operating cost benefits for the project as it will allow broad widths of a single ore type to be mined by open pit methods and fed to a single circuit rather than separately mining gold and zinc ore types and feeding them to different circuits.

Long Lead Time Orders

The Company has placed orders for the manufacture and delivery of two ball mills at a cost of US\$2 million. The order was placed with Shenyang Heavy Machinery Group.

Approvals

The approval processes are well advanced with various reports submitted and meetings attended with a view to having all necessary approvals in place to enable construction to commence later in the year.

Feasibility studies and other reports, completed by the joint venture in accordance with regulatory requirements, have been submitted and approved by the relevant authorities.

The layout of the open pit, process plant and tailings dam has also been approved by the Department of Lands and Resources.

Negotiations for the amount and terms of payment for the Mining Licence transfer tax and Land Compensation are well advanced and expected to be finalised ahead of the commencement of development.

Site Works

The Qiqiha'er Institute has completed site surveys and water resource investigations. Environmental base line studies, soil and water conservation, health and safety and other regulatory reports are well advanced.

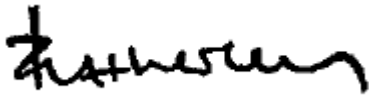
Corporate

The Company raised \$875,000 during the half through the issue of 2,500,000 ordinary shares at 35 cents following the conversion of options.

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 16 and forms part of this Directors' Report.

Signed in accordance with a resolution of Directors.

A handwritten signature in black ink, appearing to read 'Paul Atherley', written in a cursive style.

PAUL ATHERLEY
Director
Beijing, 11 March 2008

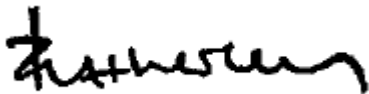
DIRECTORS' DECLARATION

In accordance with a resolution of the directors on 11 March 2008 of Leyshon Resources Limited, the directors declare 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, 11 March 2008

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Note	Half-year Ended 31 Dec 2007 \$	Half-year Ended 31 Dec 2006 \$
Revenue	2	549,916	151,364
Exploration expenses		(3,250,064)	(5,333,249)
Administration expenses		(897,463)	(829,884)
Business development expenses		(292,620)	(313,357)
Foreign exchange losses		(455,757)	(207,224)
Share based payments		(1,405,350)	(177,038)
Loss before income tax		(5,751,338)	(6,709,388)
Income tax expense		-	-
Loss attributable to members of Leyshon Resources Limited		(5,751,338)	(6,709,388)
Loss Per Share			
Basic loss per share (cents per share)		(2.66)	(4.41)
Diluted loss per share (cents per share)		(2.66)	(4.41)

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

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007

	Note	31 Dec 2007 \$	30 June 2007 \$
ASSETS			
Current Assets			
Cash and cash equivalents		15,483,779	22,096,750
Trade and other receivables		31,644	103,703
Other		97,316	57,836
Total Current Assets		15,612,739	22,258,289
Non-Current Assets			
Other financial assets at fair value through profit and loss		1	1
Other financial assets		1,957,211	703,658
Property, plant and equipment		233,557	16,618
Development properties		14,367,126	13,031,994
Total Non-Current Assets		16,557,895	13,752,271
TOTAL ASSETS		32,170,634	36,010,560
LIABILITIES			
Current Liabilities			
Trade and other payables		364,223	285,142
Provisions		70,097	63,929
Total Current Liabilities		434,320	349,071
Non-Current Liabilities			
Deferred tax liabilities		3,604,688	3,604,688
Total Non-Current Liabilities		3,604,688	3,604,688
TOTAL LIABILITIES		4,039,008	3,953,759
NET ASSETS		28,131,626	32,056,801
EQUITY			
Issued capital	7	64,511,755	63,139,928
Reserves		1,279,927	825,592
Accumulated losses		(37,660,056)	(31,908,718)
TOTAL EQUITY		28,131,626	32,056,801

The above Condensed 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 2007**

	Half-year Ended 31 Dec 2007 \$	Half-year Ended 31 Dec 2006 \$
<u>Issued Capital</u>		
Issued and paid up capital - at the beginning of the half-year	63,139,928	34,866,587
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity less share issue costs	872,577	12,472,767
Transfer from employee benefit reserve	499,250	-
	1,371,827	12,427,767
Issued and paid up capital - at the end of the half-year	64,511,755	47,294,354
<u>Employee Benefit Reserve</u>		
Balance at the beginning of the half-year	882,620	964,169
Employee benefit expense – Share options	1,405,350	177,038
Exercise of options	(499,250)	-
Employee benefit reserve at the end of the half-year	1,788,720	1,141,207
<u>Option Premium Reserve</u>		
Option premium reserve at the beginning of the half-year	112,841	3,837,841
Share options	-	-
Option premium reserve at the end of the half-year	112,841	3,837,841
<u>Foreign Exchange Reserve</u>		
Foreign exchange reserve at the beginning of the half-year	(169,869)	4,563
Exchange differences on translation of foreign operations attributable to members of Leyshon Resources Limited	(451,765)	-
Foreign exchange reserve at the end of the half-year	(621,634)	4,563

**CONDENSED CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

	Half-year Ended 31 Dec 2007 \$	Half-year Ended 31 Dec 2006 \$
<u>Accumulated Losses</u>		
Accumulated losses at the beginning of the half-year	(31,908,718)	(22,981,791)
Loss for the half-year attributable to members of Leyshon Resources Limited	<u>(5,751,338)</u>	<u>(6,709,388)</u>
Accumulated losses at the end of the half-year	<u>(37,660,056)</u>	<u>(29,691,179)</u>
Net income recognised directly in equity:		
Exchange differences on translation of foreign operations		
- Members of parent entity	<u>(451,765)</u>	-
	<u>(451,765)</u>	-
Loss for the year		
- Members of parent entity	<u>(5,751,338)</u>	<u>(6,709,388)</u>
Total recognised income and expense for the year attributable to members of the parent entity	<u>(6,203,103)</u>	<u>(6,709,388)</u>

The above Condensed 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 2007**

	Half-year ended 31 Dec 2007 \$	Half-year ended 31 Dec 2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(4,783,314)	(6,572,584)
Interest received	615,782	151,364
Interest paid	-	(1,725)
	<hr/>	<hr/>
Net cash flows used in operating activities	(4,167,532)	(6,422,945)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of plant and equipment	(215,369)	(12,071)
Refunds of security bonds	-	16,000
Loans to other entities	(1,323,049)	-
Development expenditure	(1,315,030)	-
	<hr/>	<hr/>
Net cash flows (used in)/from investing activities	(2,853,448)	3,929
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	875,000	13,081,860
Share issue expenses paid	(11,234)	(895,062)
	<hr/>	<hr/>
Net cash flows from financing activities	863,766	12,186,798
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(6,157,214)	5,767,782
Cash and cash equivalents at the beginning of the half-year	22,096,750	8,434,899
Effects of exchange rate changes on cash and cash equivalents	(455,757)	(159,772)
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CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	15,483,779	14,042,909
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The above Condensed 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 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report for the interim half-year reporting period ended 31 December 2007 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

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 2007 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 consolidated 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 2007 annual financial report for the year ended 30 June 2007, unless otherwise indicated.

	Half-year Ended 31 December 2007 \$	Half-year Ended 31 December 2006 \$
2. REVENUE		
Interest received/receivable	549,916	151,364

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 2007

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 2007	<u>Australia</u> Half -Year 2007 \$	<u>China</u> Half -Year 2007 \$	<u>Unallocated</u> Half -Year 2007 \$	<u>Consolidated</u> Half -Year 2007 \$
Revenue				
Total segment revenue	-	-	-	-
Unallocated revenue	546,800	3,116	-	549,916
Total revenue	546,800	3,116	-	549,916
Results				
Segment result	-	-	-	-
Unallocated revenue less unallocated expenses	(2,624,301)	(3,127,037)	-	(5,751,338)
Loss before income tax	(2,624,301)	(3,127,037)	-	(5,751,338)

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	-	-	-	-
Unallocated revenue	150,655	709	-	151,364
Total revenue	150,655	709	-	151,364
Results				
Segment result	-	-	-	-
Unallocated revenue less unallocated expenses	(1,593,795)	(5,115,593)	-	(6,709,388)
Profit/(loss) before income tax	(1,593,795)	(5,115,593)	-	(6,709,388)

5. SUBSEQUENT EVENTS AFTER BALANCE DATE

There were no significant events occurring after balance date requiring disclosure in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

6. COMMITMENTS AND CONTINGENCIES

Commitments

Black Dragon Mining Company Limited ("Black Dragon") entered into an agreement with the Shenyang Heavy Machinery Co. Limited on 5 December 2007. The contract relates to the purchase of two ball mills for the Zheng Guang gold project, at a cost of RMB7.6 million each, for a total cost of RMB15.2 million. In accordance with the terms of the contract, an amount of RMB1.46 million has already been paid in relation to the order of the first mill.

Black Dragon is required to provide notice no later than 30 November 2008 that the order for the second ball mill will proceed.

The Consolidated Entity has a 70% interest in Black Dragon.

Contingencies

There has been no material change in the contingent assets or liabilities of the Consolidated Entity during the half-year.

7. ISSUANCES, REPURCHASES AND REPAYMENTS OF EQUITY SECURITIES

During the half-year reporting period, Leyshon Resources Limited issued 2,500,000 ordinary shares for a total value before issue costs of \$875,000. 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 4,000,000 options over shares to directors during the period, with details as follows:

Grant date	Number of options	Exercise price (\$)	Expiry date	Vesting date
3 Dec 07	4,000,000	0.70	30 Nov 10	3 Dec 07

The options have a total value of \$1,220,000 which has been recognised at 31 December 2007. 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 Members 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 2007, 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 5 to 13.

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 establishing 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 half-year 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 2007 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*.

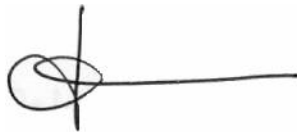
Conclusion

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 2007 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

DELOITTE TOUCHE TOHMATSU



Leanne Karamfiles
Partner
Chartered Accountants
Perth, 11 March 2008

The Board of Directors
Leyshon Resources Limited
36 Outram Street
West Perth WA 6005

11 March 2008

Dear Board Members

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.

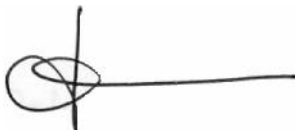
As lead audit partner for the review of the financial statements of Leyshon Resources Limited for the half-year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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

DELOITTE TOUCHE TOHMATSU



Leanne Karamfiles
Partner
Chartered Accountants