



Leyshon
Resources
Limited

ABN 75 010 482 274

2004 Annual Report



Corporate Directory

Directors

Ian P Middlemas - Executive Chairman
Paul C Atherley - Managing Director
Gary R Pearce - Non-Executive Director
Mark L Pearce - Non-Executive Director

Company Secretary

Mark L Pearce

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Stock Exchange Listing

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ASX Code

LRL

Solicitors

Hardy Bowen, Lawyers

Auditor

Deloitte Touche Tohmatsu

Bankers

Australia and New Zealand Banking Group Ltd

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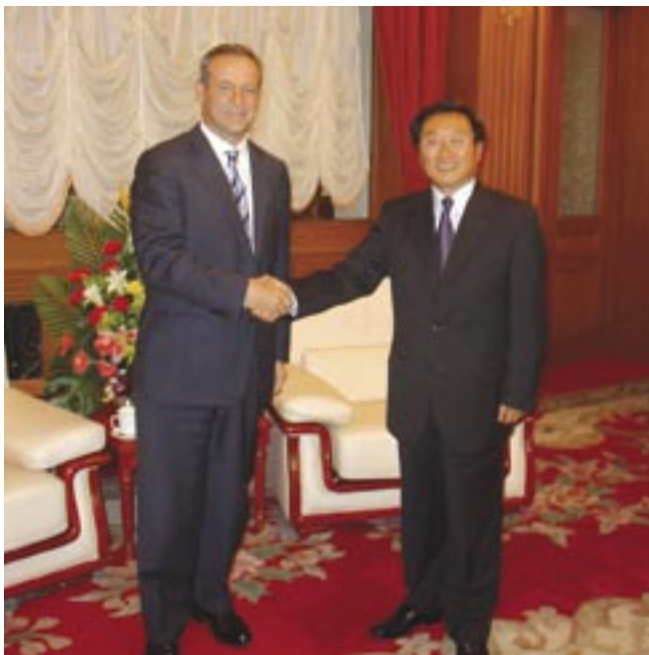
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Managing Director's Report

During the year Leyshon embarked on a strategy designed to build an inventory of high grade gold resources by targeting the underexplored epithermal gold belt in the northeastern Chinese province of Heilongjiang.

Until its closure in 2002 Leyshon operated one of Australia's largest gold mines, the 300,000 ounces per year Mt Leyshon Mine in Queensland. The mine commenced modern production in 1987 and over its 15 year life produced 2.7 million ounces of gold from a 1.5 gram per tonne orebody.

During this period Leyshon paid over A\$300 million in dividends to its shareholders making it one of Australia's most financially successful gold mining companies.



Managing Director Paul Atherley meets with Governor Zhang to discuss foreign investment in Heilongjiang's mineral resources sector.

In 2002 Leyshon's major shareholder Normandy Mining Limited was taken over by Newmont Limited - the world's largest gold mining company with production of over seven million ounces annually. Since then Leyshon has been looking to apply its financial and technical resources to the acquisition and development of new mining projects to replace the Mt Leyshon mine.

During the year it acquired China Metals Limited giving it access to a pipeline of projects in the mineral rich province of Heilongjiang, China's most northerly province bordering Russia. Having produced over 20 million ounces of gold from mainly alluvial sources it was previously China's third largest gold producer and as these sources are exhausted attention has turned to the vast hard rock potential which lies largely unexplored by modern exploration techniques.

Leyshon has so far evaluated over 40 projects across the 469,000 square kilometre Province and has undertaken detailed field visits and investigations on the most prospective 20 of these. This work has demonstrated that the northern part of the Province hosts a major epithermal gold belt and that the erosion of these near surface (often outcropping) high grade veins has been a major source of gold for the prolific alluvial mines.

In addition there appears to be many similarities between the geological settings and style of mineralisation of the epithermal gold belt of Heilongjiang and that of the epithermal gold belt of the Drummond Basin in Queensland. In both settings the mineralisation occurs as high grade steeply dipping quartz veins often occurring in swarms. Newmont's Pajingo mine in the northern margin of the basin is currently mining these veins and produces over 300,000 ounces of gold a year at less than US\$110 per ounce.

Leyshon's strategy is to build an inventory of high grade gold resources through the application of capital and the latest exploration techniques to fully test the geological potential of each project. In particular the application of the knowledge of this style of mineralisation in Queensland provides an excellent model for exploration planning in Heilongjiang.

Positive early results have been achieved at the Zheng Guang gold project in the north east of the province and further work is planned on this project during the current year. Initial work on the large Duobaoshan Copper Project has been centred on compilation and validation of the 168 kilometres of diamond drilling database.

Managing Director's Report

Continued

Leyshon's plan with this project is to complete all the regulatory approvals and to undertake the infill drilling metallurgical and other testwork to provide the basis for preparing Bankable Feasibility Studies.

Leyshon has commenced initial discussions with a well established Chinese mining group for the potential joint development of this project subject to the satisfaction of regulatory approvals.

The most prospective of the projects identified in the regional review include the Jinchang and Gaofengshan gold projects which lie within a highly mineralized region of porphyry associated and epithermal deposits. Both projects have very strong exploration appeal and are currently the subject of Joint Venture negotiations between Leyshon and the Licence holders.



Chief Operating Officer Greg Jones and Exploration Manager Jim Brigden with Gold Army Geologists in Heilongjiang

Leyshon's continues to review other investment opportunities for exploration and potential project development elsewhere in China. It retains the view that Heilongjiang is one of China's most prospective regions for mineral resources and an attractive destination for Foreign Investment.

Leyshon has established its presence in the Province by registering the first Sino Foreign Joint Venture Mining Company with the Heilongjiang Bureau of Geology Of Mineral Resources (BGMR) in April 2004. It has also established relationships with a number of other Provincial based organisations that hold mineral resources projects of interest.

This strategy is consistent with Chinese Central party Committee's policy contained in the White Paper issued in December 2003 which stated that it was seeking foreign capital and technology to develop the country's mineral resources. It is also consistent with the invitation made last year by Governor Zhang for foreign investors to invest in Heilongjiang.

In Australia Leyshon is in joint venture with three of world's largest mining companies on its large exploration holdings in Queensland. BHPBilliton, Xstrata Ltd and Newcrest Mining Ltd are collectively spending up to A\$17 million to earn up to 80% interest over the next 3 years.

China Metals

Leyshon's acquisition of China Metals Limited has given it access to a province wide agreement with the highly respected Heilongjiang Provincial Bureau of Geology, Mineral Resources, Exploration and Development (HLJ-BGMR).

Under the agreement Leyshon has the first right to explore and develop all existing and future projects under the HLJ-BGMR's control. Projects of interest to Leyshon being transferred to Sino Foreign Joint Venture Company, Black Dragon Mining Company Limited (Black Dragon), in which Leyshon holds a 70% interest and the HLJ-BGMR the remaining 30%.

Through Black Dragon, Leyshon has the right to fund projects to bankable feasibility stage after which the HLJ-BGMR may elect to participate in the capital funding or dilute to a 10% interest.



Leyshon Exploration Manager Jim Brigden reviewing drill samples with BGMR geologists at the Zheng Guang Project

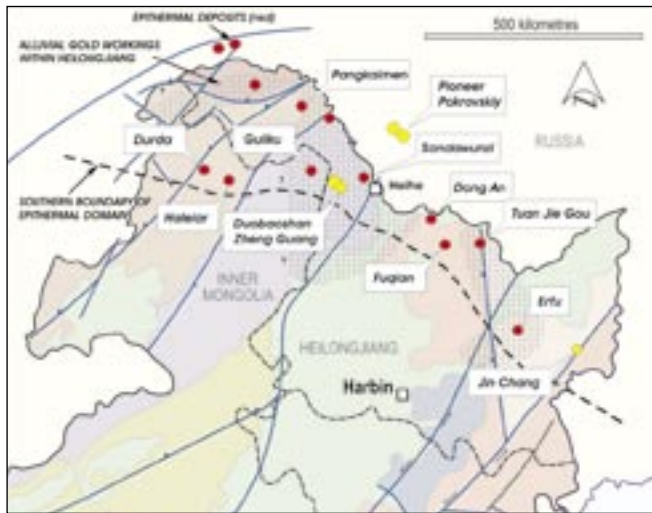
Regional Review

Heilongjiang and north-east Inner Mongolia is one of the most geologically prospective and under-explored areas in China. The region straddles the eastern extension of the 6,000 kilometre Tien Shan Belt and was formerly one of the countries largest gold producing regions having produced over 20 million ounces.

Much of the alluvial production has now been exhausted and attention has turned to the vast hard rock potential which lies largely unexplored by modern exploration techniques due to the lack of funding.

A detailed regional review of this potential has led to over 40 projects being evaluated with detailed field visits and investigations being undertaken on the most prospective 20.

The review has highlighted that the region is host to significant porphyry copper/gold and high-grade epithermal gold mineralisation and has strong geological similarities with northeast Queensland giving rise to the potential for discoveries of similar quality as Mt Leyshon and Newmont's Pajingo.



Epithermal Gold Deposits of North East China

The most prospective of these include the Jinchang and Gaofengshan gold projects which lie within a highly mineralized region of porphyry associated and epithermal deposits that can be traced along the north eastern margin of Heilongjiang/Inner Mongolia and into Russia. Both projects have very strong exploration appeal and are currently the subject of Joint Venture negotiations between Leyshon and the Licence holders.

Jinchang Gold Project

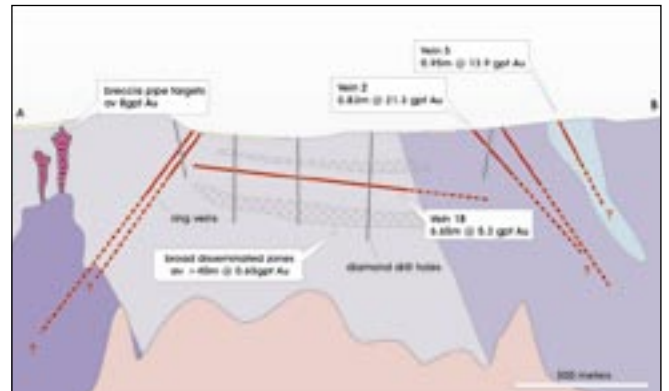
The Jinchang Gold Project is a high quality brown-fields gold prospect located in eastern Heilongjiang within a major copper-gold metallogenic belt. The prospect has been lightly explored for more than 15 years by the Exploration Licence holders. Evaluation indicates that significant zones of high-grade vein and breccia gold mineralization are associated with a large porphyry intrusive complex over an area of over 20 square kilometres.

Extensive vein style mineralisation has been identified within and adjacent to the central ring complex. This has only been partially explored leaving a significant proportion of the overall structure untested. The tenor of the mineralisation is high with zones of high grade ore grading in excess of 10 grammes per tonne gold.

It is believed that there is strong potential for the discovery of significant further high grade mineralisation based on well defined targets giving rise to a target with a well directed programme of exploration of a high quality multi-million ounce gold resource.



Jinchang Gold Project - General Geology



Jinchang Gold Project - General Cross-Section

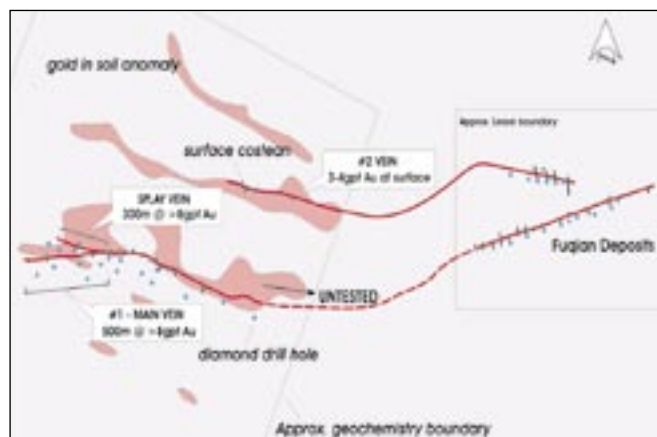
Managing Director's Report

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Gaofengshan Gold Project

Gaofengshan is an advanced gold exploration prospect located in the northern part of the province within a major epithermal gold belt. Sporadic exploration by the Exploration Licence holder over 10 years has defined two high grade epithermal veins over a combined strike length of 800 metres.

Strong potential exists to define strike extensions to known mineralisation and for the discovery of high grade zones both within known vein structures and within previously defined but untested geochemical anomalies.



Gaofengshan Gold Project - General Geology

Black Dragon Mining Limited

Black Dragon has identified two projects with significant development potential for immediate advanced exploration programmes, the Duobaoshan porphyry copper project and the Zheng Guang gold project. These are located within 8 kilometres of each other, 610km north-west of the provincial capital of Harbin and lie within a discrete northwest oriented corridor of gold and base metal mineralisation that can be traced for over at least 50 kilometres. Within this corridor, a number of other prospects and anomalies are present indicating the presence of a strong metallogenic trend with good exploration potential.



Black Dragon Prospects In The Heihe Region

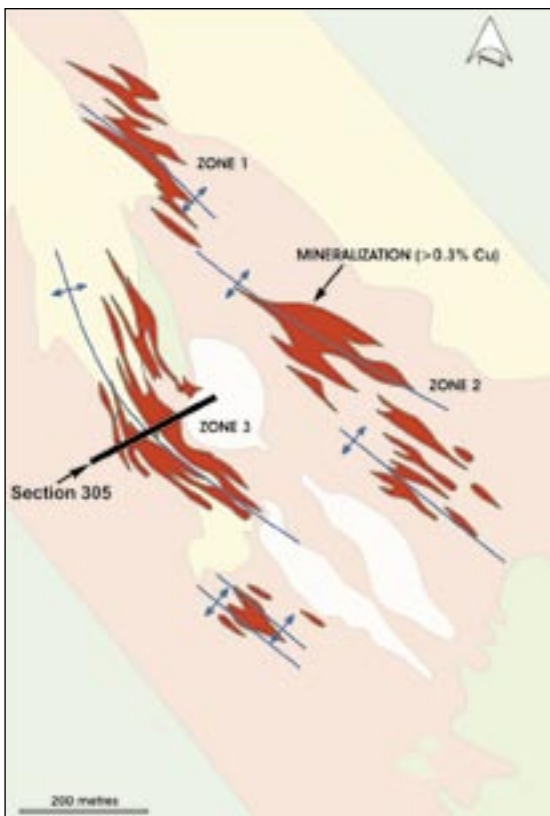
Duobaoshan Porphyry Copper Project

Duobaoshan ranks as a mid tier copper porphyry and is one of China's largest undeveloped copper projects. The polymetallic deposit contains copper, gold, silver and molybdenum.

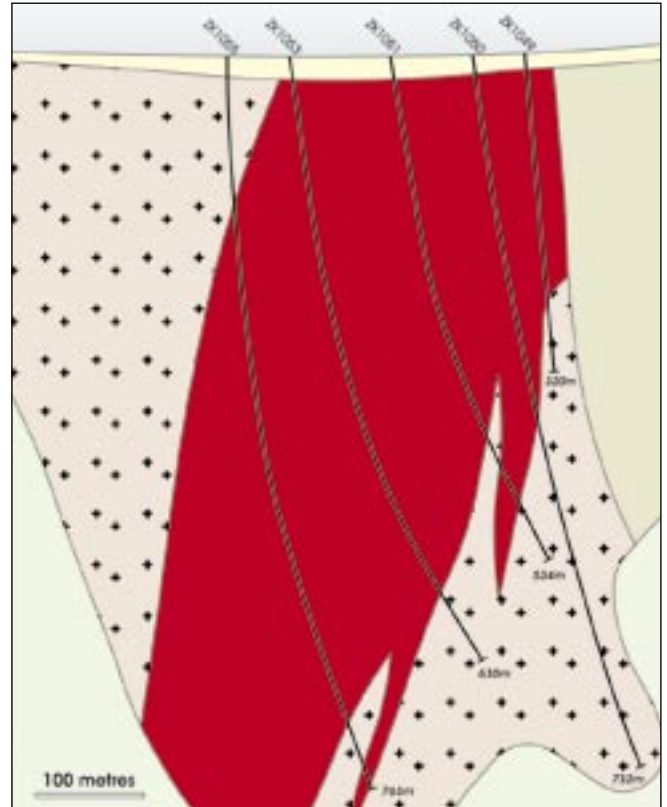
The deposit is covered by a 12 square kilometre exploration licence and is located approximately 15 kilometres northwest from Heibaoshan, a coal mining centre with good infrastructure including all weather roads and a heavy-duty rail link to the China National Rail Network.

Discovered in 1958, Duobaoshan was extensively explored during the 1960's and 1970's with a large, mainly primary sulphide resource defined through 168 kilometres of diamond drilling, 250 metres of adits and 205 metres of exploration shafts. Four significant deposits were outlined, with the majority of mineralisation confined to the number 3 deposit within deformed granodiorite.

Considerable metallurgical and mine feasibility work, particularly that completed in 1987 by the Beijing Non Ferrous Metallurgical Design Institute, has concluded that although further work was required to bring the project to full feasibility status, an operation was economically feasible (at copper prices well below current levels) and capable of producing a clean, high-grade concentrate over a 32 year period.



Duobaoshan Porphyry Copper Project - General Geology



Duobaoshan Porphyry Copper Deposit

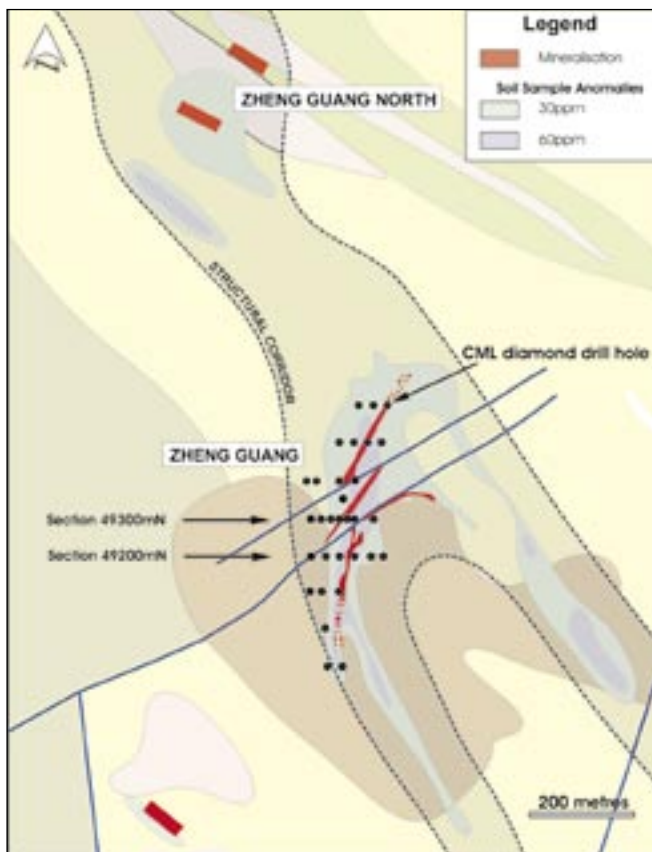
Work to date has comprised the digital capture and compilation of the large amount of drilling and other data. Significant progress has been made, with the majority of the data now stored within a database ready for validation and interpretation. The electronic data will be used to remodel the deposit and to generate new resource estimates for use in an in-house mine scoping study on the deposit later in 2004.

Managing Director's Report

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Zheng Guang Gold Project

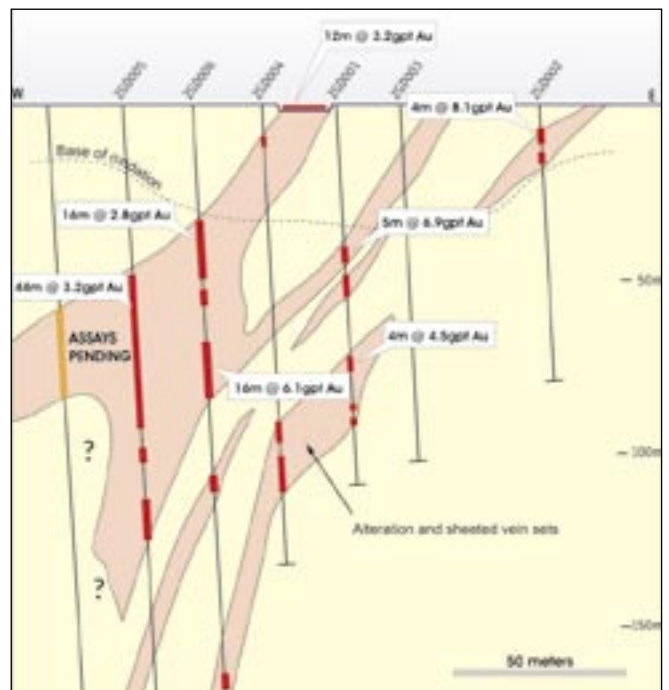
The Zheng Guang gold project lies approximately 8 kilometres south-east of Duobaoshan and was discovered by the HLJ-BGMR in 2000 through a regional stream sediment sampling programme. Follow-up work during 2002 included detailed soil sampling, diamond drilling, trenching, shafts and adits, defining strong mineralisation at the Zheng Guang prospect and outlining geochemical anomalism and other zones of mineralisation over a strike length of 2 kilometres. As well as testing the shallow potential of the deposit, the HLJ-BGMR also completed deep vertical drilling, confirming the depth extent of the mineralisation to over 350 metres in the southern section of the deposit.



Zheng Guang Gold Project - Diamond Drill Hole Location

All available data has been captured, compiled and interpreted and an exploration programme designed to define the size and key controls on mineralisation. The initial programme consists of approximately thirty diamond drill holes for 4,500 metres testing the deposit at 100 metre section spacings to a vertical depth of approximately 150 metres.

Results from the first six drill holes have been received and are encouraging, with strong intercepts (including 16 metres @ 6.09 g/t from 69 metres in hole ZGD006 and 44 metres @ 3.16 g/t Au from 50 metres) being recorded from the central section of known mineralisation.



Zheng Guang Gold Project - Section 49300mN

Broad zones of mineralisation (up to 44 metres down hole) are present and that encouraging widths of higher-grade material are still open at depth, to the west. High grade pyrite/galena veins grading up to 60 g/t Au have been intersected within the broader, lower-grade envelopes although their orientation and continuity is as yet unknown.

Drilling was completed in September 2004 and has tested over 700 metres of potential strike and the down-dip potential of the mineralisation. Follow-up drilling, particularly to test the stronger intercepts at depth, will also be completed prior to the completion of the 2004 programme.

Australian Projects

Carpentaria Joint Venture Agreement ('CJV' – Leyshon Resources Diluting to 49%)

The Company has a significant tenement holding in the Mt Isa region in northwest Queensland. Three granted Exploration Permits (EPM's) and three Exploration Permit Applications (EPMA's) covering 185 and 733 square kilometres respectively comprise the Carpentaria Joint Venture (CJV) with Xstrata Plc (formerly MIM Holdings Limited).

Under the CJV, Xstrata have met the minimum expenditure of \$600,000 over two years and have spent just under \$2,000,000 on the project in total. Once a total of \$3,000,000 expenditure over five years has been completed, Xstrata will hold 51% of the properties. Xstrata can then earn a further 19% by expending \$3,000,000 over three years to advance to 70%.

The region is recognised as one of the world's most significant mineralised provinces for base metal occurrences that include strata bound lead-zinc-silver deposits (Mount Isa, Century) and intrusion related iron oxide copper gold (IOCG) deposits (Ernest Henry). Other operating mines in the region include Cannington, Selwyn and Osborne.

Xstrata Plc, underpinning the significance of the project, has maintained the CJV after the takeover of MIM. The principal activities during the year include assessment of the aircore drill program (51 holes for 2,962m), RC/Diamond drilling, an IP survey and ground magnetics on the Tributary Creek EPM; mapping, an IP survey and RC diamond drilling program on the Middle Creek EPM and soil sampling, a dipole-dipole IP survey and RC drilling on the Jasper prospect in the Mount Avarice EPM8588, situated on the outskirts of Cloncurry.

The results of the work on the Tributary Creek and Middle Creek EPM's downgraded the targets generated by Xstrata and as a result the tenements were withdrawn from the JV. The work on the Mount Avarice EPM generated limited success and this tenement is still currently under assessment by Xstrata.

BHP-Billiton Eastern Succession JV (Leyshon Diluting to 49%)

The Eastern Succession JV comprises two EPM's 9462 and 12807 (Tributary Creek and Middle Creek) and three EPMA's (12458, 12514 and 12516), totaling some 983 square kilometres of the Mount Isa region. The key terms of the JV require a minimum expenditure by BHP Billiton of \$200,000, on the project as whole before withdrawal. Each licence will require expenditures of \$250,000 to earn 51%, an additional \$250,000 to advance to 70% and a further \$1,500,000 to secure 80% equity. If all the licences are retained within the JV, then BHP Billiton may expend up to \$10,000,000.

BHP Billiton has identified the tenements as having the potential to host both lead-zinc-silver and iron oxide copper gold mineralisation as part of an in-house regional targeting initiative. The primary focus of their work will be on the former of these mineralisation styles. It is anticipated that a focused exploration program will commence quickly on the Tributary Creek EPM 9462, whilst concerted efforts are made to refine targets in the EPMA's as they are moved forward to grant.

BHP-Billiton Selwyn Central JV (Leyshon diluting to 49%)

The JV comprises the Selwyn Central EPM12499, approximately one hundred kilometres south of Cloncurry. Under the terms of the agreement, BHP Billiton has agreed to expend up to \$3,000,000 to earn 80% equity in the EPM.

The Selwyn Central EPM is favourably located, covering 122 square kilometres in the southern portion of the Eastern Succession in the Mount Isa region. The tenement has four base metal mines – Cannington, Selwyn, Osborne and Mount Elliot within a fifty kilometre radius. BHP Billiton have identified the tenement as having the potential to host lead-zinc-silver mineralisation as part of an in-house regional targeting initiative. The licence has only recently been granted and a field program is scheduled to commence.

Exco/Leyshon JV (Leyshon Diluting to 49%)

The Exco Resources NL (Exco)/Leyshon JV comprises two tenements (EPMA12601 and EPM12656) covering 138 square kilometres of the Eastern Succession of the Mount Isa region. Exco is targeting iron oxide copper gold mineralisation as part of its broader Cloncurry Copper Project. Under the terms of the JV, Exco can earn up to 80% equity by expending up to \$5,000,000, incorporating with a minimum expenditure of \$100,000 before withdrawal. Initial work will focus on progressing the licences to grant and refining the exploration targets.

Managing Director's Report

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Cloncurry Project (Leyshon Resources 100%)

The Company holds a further fourteen EPMA's covering 3061 square kilometres in its own right, collectively termed the Cloncurry Project. The Company has actively pursued parties to joint venture these properties and will continue to do so over the coming year.

Fenian JV (Leyshon diluting to 30%)

The JV comprises the Fenian and Laura (EPM10203 and EPM14188), covering 349 square kilometres approximately twenty-nine kilometres south of Charters Towers in Queensland. The EPM's wholly enclose the historic Mount Leyshon mining operation, which produced over three million ounces of gold. Newcrest have selected the Fenian EPM and subsequently applied for the Laura EPM as part of their acquisition program in Queensland and consider that the tenements have the potential to yield economic bulk tonnage gold mineralisation. The Charters Towers region has a considerable gold mining history, yielding over 10 million ounces. The key terms of the JV require a minimum expenditure by Newcrest of \$350,000, with further \$2,150,000 to earn 70% of the project over five years.

Since the inception of the JV Newcrest has collated all available data and completed six RC/diamond drill holes on five targets within the northeasterly trending structural corridor upto seven kilometres from the Mount Leyshon mine. The drilling was completed at various orientations to a maximum down-hole depth of 867m. Anomalous Cu and Zn mineralisation has been encountered at the Black Knight prospect with associated brecciation and alteration which maybe indicative of Mount Leyshon style mineralisation at depth. Considerable alteration and brecciation has been encountered at Seventy Mile Mount and Middle Mount, indicating the presence of a large mineralising system.

FEN005 drilled on the Black Knight prospect was designed to test surface outcrops of breccia which are anomalous in Cu, Pb, Zn, Ag, and Mo. Silica - pyrite altered quartz-porphry rhyolite was intersected from 97 to 248m. Two zones of infill cavity breccia occur from 248 to 306m, and from 526 to 653m. The best gold assay returned in FEN005 was 0.8m @ 14 g/t Au from 352-352.8m, with no other gold assays from the drill hole returning values greater than 0.4g/t Au. The infill breccia and alteration zones have visual similarities to the Mt Leyshon breccia and have recorded anomalous levels of copper and zinc. These include 90m @ 0.13% Cu and 0.16% Zn from 98m, and 118.4m @ 0.15% Cu from 535m.

Two (FEN001 and FEN002) holes were completed and were drilled to test below previous shallow drilling which had recorded significant intercepts of 4m @ 12g/t Au, 6m @ 12g/t Au, and 12m @ 4.2g/t Au. The assay results returned for FEN001 are disappointing, with no assays greater than 2g/t Au (max 1m @ 1.1g/t Au from 296m). The best gold assays returned in FEN002 were 0.4m @ 5.5 g/t Au from 97.8-98.2m and 1m @ 1.6 g/t Au from 402-403m. The remaining three holes drilled on three other targets failed to generate any anomalous intercepts.

Mt Leyshon Project (Leyshon Resources 100%)

The Project comprises five Mining Leases (ML's) and is located some 29 kilometres south of Charters Towers in the east-west trending Lolworth-Ravenswood Block. During its recent history, over 3,000,000 ounces of gold have been extracted from the Mt Leyshon operation. Mining and milling ceased in June 2001 and February 2002 respectively. Significant geological targets exist within the environ of the Mt Leyshon mine and these will ultimately require further assessment and it is anticipated that this will be completed under a suitable joint venture arrangement in the future.

The Kidston Joint Venture (Leyshon Resources 70%)

The Kidston, Tate River and Mt Atlas projects collectively comprise the Kidston Joint Venture (KJV). These projects comprise nine EPM's and five EPMA's covering 4083 square kilometres and were identified as being prospective for gold and copper-gold mineralisation. The Company acquired 70% equity in the project pursuant to the restructure agreement with Newmont Australia Limited and may then earn up to 100%.

The preliminary compilation, integration and interpretation of the KJV data have been completed, leading to a rationalisation of the tenement holding. Work to date has revealed a large number of anomalous features within the information available collated from previous exploration reports, Geoscience Australia stream sediment sampling and from geological interpretation of the aeromagnetics.

Musgraves Project (Leyshon Resources Earning 70%)

The Musgrave Project comprises six granted exploration licences covering 1165 square kilometres in two non-contiguous blocks in the Western Musgraves of WA. The licences are held by a wholly owned subsidiary of Newmont Gold Australia Ltd and Leyshon will be able to earn a 70% interest in the project by expending \$3,000,000 over four years. The project was acquired with a view to defining and testing geological targets for iron-oxide-copper-gold and epigenetic gold deposits. No further work has been completed during the period due to access issues surrounding the tenements.

Corporate Governance Statement

The Board of Directors of Leyshon Resources Limited is responsible for its corporate governance, that is, the system by which the Company and its subsidiaries ("the Group") are managed.

1. Board of Directors

1.1 Role of the Board and Management

The Board represents shareholders' interests in continuing a successful business, which seeks to optimise medium to long-term financial gains for shareholders. By not focusing on short-term gains for shareholders, the Board believes that this will ultimately result in the interests of all stakeholders being appropriately addressed when making business decisions.

The Board is responsible for ensuring that the Group is managed in such a way to best achieve this desired result. Given the current size and operations of the business, the Board currently undertakes an active, not passive role.

The Board is responsible for evaluating and setting the strategic directions for the Group, establishing goals for management and monitoring the achievement of these goals. The Managing Director is responsible to the Board for the day-to-day management of the Group.

The Board has sole responsibility for the following:

- Appointing and removing the Managing Director and any other executives and approving their remuneration;
- Appointing and removing the Company Secretary / Chief Financial Officer and approving their remuneration;
- Determining the strategic direction of the Group and measuring performance of management against approved strategies;
- Review of the adequacy of resources for management to properly carry out approved strategies and business plans;
- Adopting operating and capital expenditure budgets at the commencement of each financial year and monitoring the progress by both financial and non-financial key performance indicators;
- Monitoring the Group's medium term capital and cash flow requirements;
- Approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations;
- Determining that satisfactory arrangements are in place for auditing the Group's financial affairs;
- Review and ratify systems of risk management and internal compliance and control, codes of conduct and compliance with legislative requirements; and
- Ensuring that policies and compliance systems consistent with the Group's objectives and best practice are in place and that the Company and its officers act legally, ethically and responsibly on all matters.

The Board's role and the Group's corporate governance practices are being continually reviewed and improved as required.

1.2 Composition of the Board and New Appointments

The Company currently has the following Board members:

Mr Ian P Middlemas	Executive Chairman
Mr Paul C Atherley	Managing Director
Mr Gary R Pearce	Independent Non-Executive Director
Mr Mark L Pearce	Non-Executive Director

The Company's Constitution provides that the number of directors shall not be less than three and not more than ten. There is no requirement for any share holding qualification.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the appointment and further expense of an independent Non-Executive Chairman and additional independent Non-Executive Directors. The Board believes that the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues. If the Company's activities increase in size, nature and scope the size of the Board will be reviewed periodically to determine the optimum number of directors required for the Board to properly perform its responsibilities and functions.

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities.

Corporate Governance Statement

(continued)

Directors are initially appointed by the full Board subject to election by shareholders at the next annual general meeting. Under the Company's Constitution the tenure of directors (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his last appointment. Subject to the requirements of the Corporations Act 2001, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, the Board may revoke any appointment.

1.3 Committees of the Board

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

The Board has also established a framework for the management of the Group including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds meetings at such times as may be necessary to address any general or specific matters as required.

If the Group's activities increase in size, scope and nature, the appointment of separate or special committees will be reviewed by the Board and implemented if appropriate.

1.4 Conflicts of Interest

In accordance with the Corporations Act and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

1.5 Independent Professional Advice

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all Board members.

2. Ethical Standards

The Board acknowledges the need for continued maintenance of the highest standard of corporate governance practice and ethical conduct by all Directors and employees of the Group.

2.1 Code of Conduct for Directors

The Board has adopted a Code of Conduct for Directors to promote ethical and responsible decision-making by the Directors. The code is based on a code of conduct for Directors prepared by the Australian Institute of Company Directors.

The principles of the code are:

- A director must act honestly, in good faith and in the best interests of the company as a whole.
- A director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
- A director must use the powers of office for a proper purpose, in the best interests of the company as a whole.
- A director must recognise that the primary responsibility is to the Company's shareholders as a whole but should, where appropriate, have regard for the interest of all stakeholders of the company.
- A director must not make improper use of information acquired as a director.
- A director must not take improper advantage of the position of director.
- A director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the company.
- A director has an obligation to be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken as a Board.
- Confidential information received by a director in the course of the exercise of directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company, or the person from whom the information is provided, or is required by law.

- A director should not engage in conduct likely to bring discredit upon the company.
- A director has an obligation at all times, to comply with the spirit, as well as the letter of the law and with the principles of the Code.

The principles are supported by guidelines as set out by the Australian Institute of Company Directors for their interpretation. Directors are also obliged to comply with the Company's Code of Ethics and Conduct, as outlined below.

2.2 Code of Ethics and Conduct

The Company has implemented a Code of Ethics and Conduct, which provides guidelines aimed at maintaining high ethical standards, corporate behaviour and accountability within the Company.

All employees and directors are expected to:

- respect the law and act in accordance with it;
- respect confidentiality and not misuse company information, assets or facilities;
- value and maintain professionalism;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity, decency and responsibility at all times.

An employee that breaches the Code of Ethics and Conduct may face disciplinary action. If an employee suspects that a breach of the Code of Ethics and Conduct has occurred or will occur, he or she must report that breach to management. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be acted upon and kept confidential.

2.3 Dealings in Company Securities

The Company's share trading policy imposes basic trading restrictions on all employees of the Company with 'inside information', and additional trading restrictions on the directors of the Company.

'Inside information' is information that:

- is not generally available; and
- if it were generally available, it would, or would be likely to influence investors in deciding whether to buy or sell the Company's securities.

If an employee possesses inside information, the person must not:

- trade in the Company's securities;
- advise others or procure others to trade in the Company's securities; or
- pass on the inside information to others – including colleagues, family or friends – knowing (or where the employee or Director should have reasonably known) that the other persons will use that information to trade in, or procure someone else to trade in, the Company's securities.

This prohibition applies regardless of how the employee or Director learns the information (eg. even if the employee or Director overhears it or is told in a social setting).

In addition to the above, Directors must notify the Company Secretary as soon as practicable, but not later than 5 business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the Corporations Act and the Listing rules of the ASX, the Company on behalf of the Directors must advise the ASX of any transactions conducted by them in the securities of the Company.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment.

Corporate Governance Statement

(continued)

2.4 Interests of Other Stakeholders

The Company's objective is to use its significant cash position to leverage into resource projects to provide a solid base in the future from which the Company can build its resource business and create wealth for shareholders. The Company's operations are subject to various environmental laws and regulations under the relevant government's legislation. Full compliance with these laws and regulations is regarded as a minimum standard for the Company to achieve.

To assist in meeting its objective, the Company conducts its business within the Code of Ethics and Conduct, as outlined in 2.2 above.

3. Disclosure of Information

3.1 Continuous Disclosure to ASX

The continuous disclosure policy requires all executives and Directors to inform the Managing Director or in their absence the Company Secretary of any potentially material information as soon as practicable after they become aware of that information.

Information is material if it is likely that the information would influence investors who commonly acquire securities on ASX in deciding whether to buy, sell or hold the Company's securities.

Information need not be disclosed if:

- a) It is not material and a reasonable person would not expect the information to be disclosed, or it is material but due to a specific valid commercial reason is not to be disclosed; and
- b) The information is confidential; or
- c) One of the following applies:
 - i. It would breach a law or regulation to disclose the information;
 - ii. The information concerns an incomplete proposal or negotiation;
 - iii. The information comprises matters of supposition or is insufficiently definite to warrant disclosure;
 - iv. The information is generated for internal management purposes;
 - v. The information is a trade secret;
 - vi. It would breach a material term of an agreement, to which the company is a party, to disclose the information;
 - vii. The information is scientific data that release of which may benefit the company's potential competitors.

The Managing Director is responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board. The Company Secretary is responsible for all communications with ASX.

3.2 Communication with Shareholders

The Company places considerable importance on effective communications with shareholders.

The Group's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Group. The strategy provides for the use of systems that ensure a regular and timely release of information about the Group is provided to shareholders. Mechanisms employed include:

- Announcements lodged with ASX;
- ASX Quarterly Cash Flow Reports;
- Half Yearly Report;
- Presentations at the Annual General Meeting/General Meetings; and
- Annual Financial Report.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the Group's strategy and goals.



4. Risk Management

4.1 Identification of Risk

The Board is responsible for the oversight of the Group's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Group with the Managing Director and Chief Financial Officer having ultimate responsibility to the Board for the risk management and control framework.

Areas of significant business risk to the Group are highlighted in the Business Plan presented to the Board by the Managing Director each year.

Arrangements put in place by the Board to monitor risk management include monthly reporting to the Board in respect of operations and the financial position of the Group.

4.2 Integrity of Financial Reporting

Commencing 30 June 2004, the Company's Managing Director and Chief Financial Officer (or equivalent) report in writing to the Board that:

- the consolidated financial statements of the Company and its controlled entities for each half and full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

4.3 Role of Auditor

The Company's practice is to invite the auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

5. Performance Review

The Board has adopted a self-evaluation process to measure its own performance and the performance of its committees during each financial year. Also, an annual review is undertaken in relation to the composition and skills mix of the directors of the Company.

Arrangements put in place by the Board to monitor the performance of the Group's executives include:

- a review by the Board of the Group's financial performance; and
- annual performance appraisal meetings incorporating analysis of key performance indicators with each individual to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Company.

6. Remuneration Arrangements

The broad remuneration policy is to ensure that remuneration properly reflects the relevant person's duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board believes that the best way to achieve this objective is to provide Executive Directors and executives with a remuneration package consisting of fixed components and incentives that reflect the person's responsibilities, duties and personal performance.

The remuneration of Non-Executive Directors is determined by the Board as a whole having regard to the level of fees paid to non-executive directors by other companies of similar size in the industry.

The aggregate amount payable to the Company's Non-Executive Directors must not exceed the maximum annual amount approved by the Company's shareholders.

Compliance with ASX Corporate Governance Recommendations

1. Role of the Board and Management

Council Principle 1: Lay solid foundations for management and oversight

Council Recommendation 1.1: Formalise and disclose the functions reserved to the board and those delegated to management.

The Company complies with this recommendation. Refer Section 1.1 of Corporate Governance Statement.

2. Composition of the Board

Council Principle 2: Structure the board to add value

Council Recommendation 2.1: A majority of the board should be independent directors.

The Board considers that a majority of the Board is not independent in accordance with Recommendation 2.1, however the Board believes that the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues. Directors having a conflict of interest in relation to a particular item of business must and do absent themselves from the Board Meeting before commencement of discussion on the topic.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of the appointment of additional independent Non-Executive Directors.

Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.2: The chairperson should be an independent director.

The Company's Chairman, Mr Ian Middlemas, is considered by the Board not to be independent in terms of the ASX Corporate Governance Council's definition of independent director. However the Board believes that the Chairman is able and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a Chairman.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of the appointment of an independent Non-Executive Chairman.

Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.3: The roles of the chairperson and chief executive officer should not be exercised by the same individual.

The Company complies with this recommendation. Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.4: The board should establish a nomination committee.

The Board considers that the Company is not currently of a size to justify the formation of a nomination committee. The Board as a whole undertakes the process of reviewing the skill base and experience of existing Directors to enable identification of attributes required in new Directors. Where appropriate independent consultants are engaged to identify possible new candidates for the Board.

The Board acknowledges this does not comply with recommendation 2.4 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a nomination committee will be reviewed by the Board and implemented if appropriate.

Refer Section 1.3 of Corporate Governance Statement.

3. Ethical and Responsible Decision-making

Council Principle 3: Promote ethical and responsible decision-making.

Council Recommendation 3.1: Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:

- 3.1.1 *the practices necessary to maintain confidence in the Company's integrity;*
- 3.1.2 *the responsibility and accountability of individuals for reporting and investigating reports of unethical practice.*

The Company complies with this recommendation. Refer Sections 2.1 and 2.2 of Corporate Governance Statement.

Council Recommendation 3.2: Disclose the policy concerning trading in company securities by directors, officers and employees.

The Company complies with this recommendation. Refer Section 2.3 of Corporate Governance Statement.

4. Integrity of Financial Reporting

Council Principle 4: Safeguard integrity in financial reporting.

Council Recommendation 4.1: Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

Refer Section 4.2 of Corporate Governance Statement.

Council Recommendation 4.2: The board should establish an audit committee.

The Board considers that the Company is not of a size, nor are its financial affairs of such complexity to justify the formation of an audit committee. The Board as a whole undertakes the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems.

The Board acknowledges this does not comply with recommendation 4.2 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of an audit committee will be reviewed by the Board and implemented if appropriate.

Refer Section 1.3 of Corporate Governance Statement.

Council Recommendation 4.3: Structure the audit committee so that it consists of:

- *only non-executive directors;*
- *a majority of independent directors;*
- *an independent chairperson, who is not chairperson of the board;*
- *at least three members.*

Not applicable. Refer Recommendation 4.2.

Council Recommendation 4.4: The audit committee should have a formal operating charter.

Not applicable. Refer Recommendation 4.2.

Compliance with ASX Corporate Governance Recommendations

(continued)

5. Continuous Disclosure to ASX

Council Principle 5: Make a timely and balanced disclosure

Council Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

The Company complies with this recommendation. Refer Section 3.1 of Corporate Governance Statement.

6. Communication with Shareholders

Council Principle 6: Respect the rights of shareholders

Council Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

The Company complies with this recommendation. Refer Section 3.2 of Corporate Governance Statement.

Council Recommendation 6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company complies with this recommendation. Refer Section 4.3 of Corporate Governance Statement.

7. Risk Management

Council Principle 7: Recognise and manage risk

Council Recommendation 7.1: The Board or appropriate board committee should establish policies on risk oversight and management.

The Company complies with this recommendation. Refer Section 4.1 of Corporate Governance Statement.

Council Recommendation 7.2: The chief executive officer and the chief financial officer should state in writing that:

7.2.1 the statement given in accordance with best practice recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board;

7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Company complies with this recommendation. Refer Section 4.2 of Corporate Governance Statement.

8. Performance

Council Principle 8: Encourage enhanced performance

Council Recommendation 8.1: Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.

The Company complies with this recommendation. Refer Section 5 of Corporate Governance Statement.



9. Remuneration

Council Principle 9: Remunerate fairly and responsibly

Council Recommendation 9.1: Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.

The Company complies with this recommendation. Refer Section 6 of Corporate Governance Statement.

Council Recommendation 9.2: The board should establish a remuneration committee.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for Directors and executives of the Company.

The Board acknowledges this does not comply with recommendation 9.2 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a remuneration committee will be reviewed by the Board and implemented if appropriate.

Refer Section 1.3 of Corporate Governance Statement.

Council Recommendation 9.3: Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

The Company complies with this recommendation. Refer Section 6 of Corporate Governance Statement.

Council Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

The Company complies with this recommendation. The Company currently has no equity-based remuneration plan.

10. Interests of Stakeholders

Council Principle 10: Recognise the legitimate interests of stakeholders

Council Recommendation 10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

The Company complies with this recommendation. Refer Section 2.4 of Corporate Governance Statement.

Directors' Report

The Directors of Leyshon Resources Limited present their report on the consolidated entity consisting of Leyshon Resources Limited ("the Company" or "Leyshon Resources") and the entities it controlled at the end of, or during, the financial year ended 30 June 2004 ("Consolidated Entity").

DIRECTORS

The Directors of the Company during or since the end of the financial year are:

Ian P Middlemas

Executive Chairman

Qualifications – B.Com, CA, ASIA

Mr Middlemas has been in the resources sector for over 20 years and has held senior executive positions and directorships in a number of resource companies. He originally worked for a large international Chartered Accounting firm before joining the Normandy Group where he was a Senior Group Executive for approximately 10 years. Mr Middlemas has considerable corporate, financial and management expertise and is a Chartered Accountant and an Associate of the Securities Institute of Australia.

Mr Middlemas was appointed a Director of Leyshon Resources on 21 November 2001.

Paul C Atherley

Managing Director

Qualifications - BSc (Hons), MappSC, MBA, MAusIMM, ARSM

Mr Atherley graduated in mining engineering from the Royal School of Mines, Imperial College in 1982 and has over 20 years industry operating experience including periods with British Coal in the UK and Mount Isa Mines Ltd in Australia. He was an Executive Director of the Investment Bank arm of HSBC Australia where he undertook a range of advisory roles in the resources sector. He recently retired from the position of Managing Director of an ASX listed and AIM listed mining company, a position he held since the company's flotation in 1994. During this period he completed a number of acquisitions and financings of resource projects in Australia, South-East Asia, Africa and Western Europe.

Mr Atherley was appointed a Director of Leyshon Resources on 4 May 2004.

Gary R Pearce

Non-Executive Director

Mr G Pearce was the Chief Executive Officer of the Allied Capital Group Pty Ltd, a West Australian based Financial Services Group, for over 25 years. During this period Mr G Pearce was also a Director of North Kalgurli Mines Ltd, Goldmines of Kalgoorlie Ltd, Western Australian Development Corporation and Chairman of the Building Management Authority. Over the past ten years, Mr G Pearce has provided corporate and strategic advice to a number of Australian companies on a fee basis and is currently a Director of a number of private companies in which he has a significant interest.

Mr G Pearce was appointed a Director of Leyshon Resources on 3 March 1993.

Mark L Pearce

Non-Executive Director and Company Secretary

Qualifications - B.Bus, CA, FCIS

Mr M Pearce is a Chartered Accountant and is a Fellow of the Institute of Chartered Secretaries who currently holds the position of Chief Financial Officer and Company Secretary for a number of publicly listed companies. Mr M Pearce is also a director of several publicly listed companies that operate in the resources and/or industrial sector. Prior to this he was the CFO and Company Secretary for a publicly listed national manufacturer and has worked for several large international Chartered Accounting firms. Mr M Pearce has gained experience in business analysis, business acquisitions and disposals, capital raising, debt financing and Corporations Act and ASX compliance matters during his career.

Mr M Pearce was appointed a Director of Leyshon Resources on 21 November 2001.

Messrs Mark Pearce and Gary Pearce are not related.

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the year consisted of gold mining and exploration. Other than as disclosed below, there was no significant change in the nature of those activities during the financial year.

REVIEW OF OPERATIONS

During the financial year, the Company continued to develop its exploration asset portfolio by undertaking additional exploration activities over a number of the Company's tenement holdings in northwest Queensland and the Musgraves area of Western Australia.

The exploration asset portfolio was further enhanced with the finalisation during the financial year of joint ventures including:

- > BHP-Billiton Joint Venture for the Company's Cloncurry interests in the Mount Isa region; and
- > Newcrest Joint Venture for the Company's Mt Leyshon properties.

As a result, the Company has now substantially joint ventured its tenement holdings in Australia with major resource companies and exploration for gold and base metals is being conducted under various earn-in agreements.

The Company also evaluated a number of new business opportunities, both domestic and overseas. This resulted in the Company acquiring a 100% interest in China Metals Pty Ltd, an unlisted Australian company that is party to a province wide agreement with Heilongjiang Provincial Bureau of Geology and Mineral Resources Exploration and Development (HLJ-BGMR). Under the agreement Leyshon, via its 70% ownership of Black Dragon Mining Company Limited ("Black Dragon"), has first right to explore and develop all existing and future projects under the HLJ-BGMR's control.

Black Dragon obtained a business licence that allowed it to commence work on the first two projects, Zheng Guang and Duobaoshan. These projects are located within the eastern extension of the Tien Shan mobile belt that holds world-class gold and copper deposits.

CONSOLIDATED RESULTS

	2004 \$	2003 \$
Profit/(loss) of the Consolidated Entity from ordinary activities before income tax expense	(1,163,306)	2,378,099
Income tax expense	-	-
Net profit/(loss)	(1,163,306)	2,378,099

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed below, there were no significant changes in the state of affairs of the Company during the year.

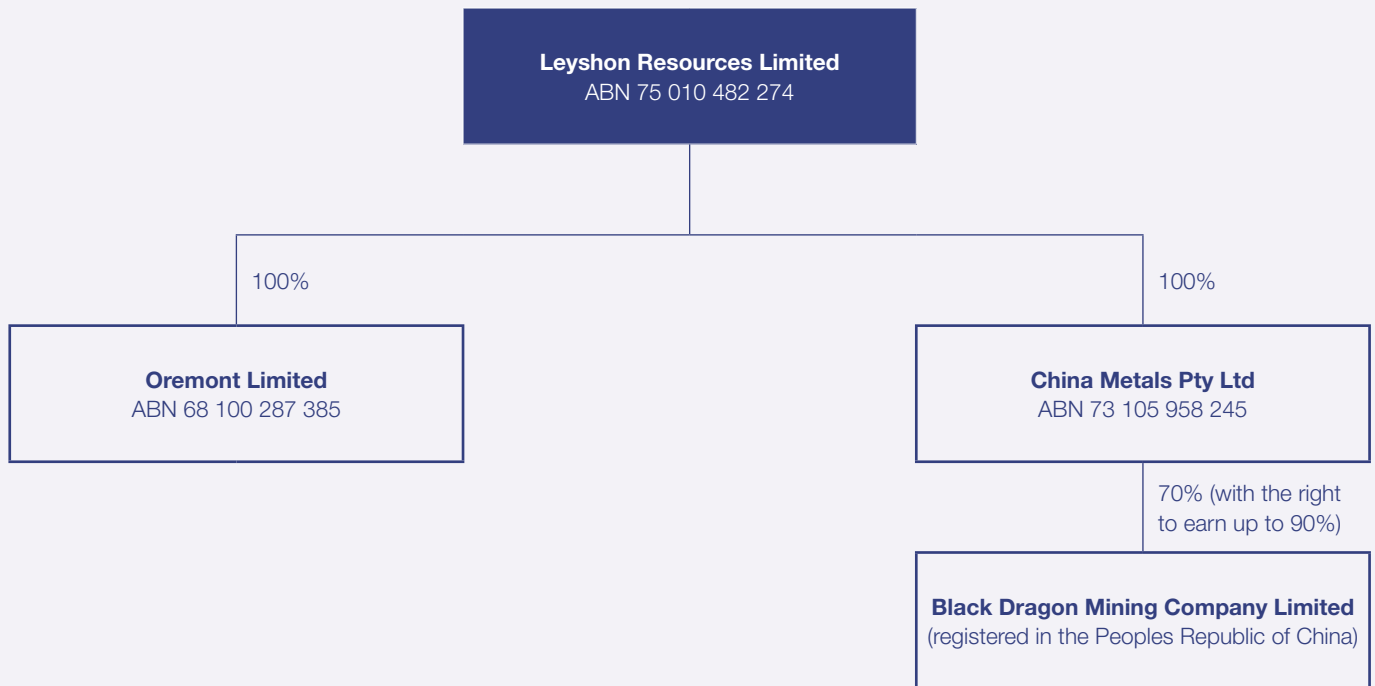
- i) On 29 January 2004, the Company announced it had secured the rights to gain access to a number of significant copper and gold projects in the north eastern province of Heilongjiang in China via the acquisition of China Metals Pty Ltd.
- ii) On 12 March 2004, the Company received shareholder approval to acquire China Metals Pty Ltd.
- iii) On 4 May 2004, the Company completed the acquisition of China Metals Pty Ltd and issued to the vendors of China Metals Pty Ltd the following consideration:
 - > 20,000,000 fully paid ordinary shares;
 - > 10,000,000 options exercisable at \$0.20 on or before 30 June 2007;
 - > 5,000,000 options exercisable at \$0.30 on or before 30 June 2007; and
 - > 1,000 preference shares that, subject to various pre-determined milestones being met, will each convert into 10,000 fully paid ordinary shares (see Note 13(e)).

Directors' Report

(continued)

CORPORATE STRUCTURE

Leyshon Resources Limited is incorporated and domiciled in Australia. The Company has prepared a consolidated financial report incorporating the entities that it controlled at the end of, or during, the financial year, which are outlined in the following illustration of the Consolidated Entity's corporate structure:



DIVIDENDS

No interim or final dividend has been declared in respect to the financial year ended 30 June 2004 (2003: nil).

POST BALANCE DATE EVENTS

As at the date of this report there are no matters or circumstances which have arisen since 30 June 2004 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2004, of the Consolidated Entity constituted by Leyshon Resources Limited and the entities it controls from time to time;
- the results of those operations; or
- the state of affairs, in financial years subsequent to 30 June 2004, of the Consolidated Entity.

LIKELY DEVELOPMENTS

Due to the inherent uncertainty of the Consolidated Entity's business activities, namely exploration and mining activities, the Directors are not able to state:

- likely developments in the entities' operations; or
- the expected results of these operations,

as to do so would be likely to result in unreasonable prejudice to the Consolidated Entity.



ENVIRONMENTAL REGULATIONS

The Consolidated Entity's operations are subject to various environmental laws and regulations under the relevant government's legislation. Full compliance with these laws and regulations is regarded as a minimum standard for all operations to achieve.

Instances of environmental non-compliance by an operation are identified either by external compliance audits or inspections by relevant government authorities.

There have been no significant known breaches by the Consolidated Entity during the financial year.

PREFERENCE SHARES

During the financial year, 1,000 Converting Preference Shares (CPS) were issued as part consideration for the acquisition of 100% of China Metals Pty Ltd.

Upon the satisfaction of various milestones the CPS are convertible into a maximum of 10,000,000 ordinary shares (see Note 13(e)).

OPTIONS

As part consideration for the acquisition of 100% of China Metals Pty Ltd, 15,000,000 Options exercisable at \$0.20 each or \$0.30 each (as appropriate) that expire on 30 June 2007 were granted during the year.

Following shareholder approval, on 12 July 2004, 2,500,000 Options exercisable at \$0.30 each on or before 30 June 2007 were granted to Greg Jones (Chief Operating Officer of China Metals Pty Ltd) as part of his remuneration package and 1,000,000 Options exercisable at \$0.30 each on or before 30 June 2007 were issued to other consultants of the Company.

At the date of this report the following options have been issued over unissued capital:

Unlisted Options

- 10,000,000 unlisted options at an exercise price of \$0.20 each that expire on 30 June 2007.
- 8,500,000 unlisted options at an exercise price of \$0.30 each that expire on 30 June 2007.

During the financial year no shares were issued as a result of the exercise of options. Since 30 June 2004, no shares have been issued as a result of the exercise of options.

INSURANCE OF OFFICERS AND AUDITORS

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' Report

(continued)

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's directors (including meetings of committees of directors, if any) held during the financial year ended 30 June 2004, and the number of meetings attended by each director.

	Board Meetings	
	No. eligible to attend	No. attended
Directors		
Ian P Middlemas	6	5
Paul C Atherley	-	-
Gary R Pearce	6	6
Mark L Pearce	6	6

INFORMATION ON DIRECTORS' INTERESTS IN SECURITIES OF LEYSHON RESOURCES

	Interest in Securities at the date of this Report			Interest in Securities issued/granted during the year		
	Ordinary Shares (1)	Options (2)	CPS (3)	Ordinary Shares (1)	Options (2)	CPS (3)
Ian P Middlemas	42,291,611	-	-	-	-	-
Paul C Atherley (4)	10,000,000	15,000,000	500	10,000,000	15,000,000	500
Gary R Pearce	1,000,000	-	-	-	-	-
Mark L Pearce	200,000	-	-	-	-	-

(1) "Shares" means fully paid ordinary shares in the capital of the Company.

(2) "Options" means an option to subscribe for 1 fully paid ordinary share in the capital of the Company at an exercise price of \$0.20 or \$0.30 (as applicable) on or before 30 June 2007.

(3) "CPS" means a Converting Preference Share issued as part consideration for the acquisition of China Metals Pty Ltd. Each CPS is convertible into 10,000 fully paid ordinary shares in the capital of the Company on the terms and conditions outlined in Note 13(e) of the financial statements

(4) Following shareholder approval, the securities were issued to Mr Atherley in his capacity as a vendor of China Metals Pty Ltd.

DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION

The Board is responsible for determining the nature and amount of emoluments packages applicable to the Board members and senior executives of the Consolidated Entity. The Board's remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities. Remuneration is aimed at being competitive in attracting, motivating and retaining people of the highest quality.

The emoluments (paid or payable) of each Director and the executive officers for the financial year ended 30 June 2004 are as follows:

	Base remuneration (salary & fees)	Bonuses	Non-cash benefits	Super contributions	Options issued	Termination and retirement benefits	Total
	\$	\$	\$	\$	\$	\$	\$
Directors							
Ian P Middlemas	90,000	-	-	-	-	-	90,000
Paul C Atherley	50,000	-	-	-	-	-	50,000
Gary R Pearce	15,000	-	-	1,350	-	-	16,350
Mark L Pearce	15,000	-	-	-	-	-	15,000
Executive Officers (1)							
Greg Jones	38,226	-	-	3,440	-	-	41,666

(1) Other than as outlined above, there were no other executive officers of the Company during the year.

Signed in accordance with a resolution of the Board of Directors.

On behalf of the Directors



PAUL ATHERLEY
Managing Director

Perth, Western Australia
30 August 2004

Statement of Financial Performance

For the Financial Year ended 30 June 2004

	Note	Consolidated		Leyshon Resources	
		2004	2003	2004	2003
		\$	\$	\$	\$
Other revenue from ordinary activities	2	486,300	2,770,270	484,958	2,770,270
Exploration expenses		(584,449)	(119,869)	(440,197)	(119,869)
Administration expenses		(426,087)	(242,407)	(342,789)	(242,407)
Business development expenses		(197,202)	-	(197,202)	-
Write down of recoverable amount of non-current assets	3	-	-	(700,000)	-
Share of net loss of joint venture accounted for using the equity method	10	(441,868)	-	-	-
Other expenses from ordinary activities		-	(29,895)	-	(29,895)
(Loss)/profit from ordinary activities before income tax expense		(1,163,306)	2,378,099	(1,195,230)	2,378,099
Income tax expense relating to ordinary activities	4	-	-	-	-
Net (loss)/profit		(1,163,306)	2,378,099	(1,195,230)	2,378,099
Total changes in equity other than those resulting from transactions with owners as owners	14	(1,163,306)	2,378,099	(1,195,230)	2,378,099
Basic (loss)/earnings per share (cents)	5	(1.2)	2.6		
Diluted (loss)/earnings per share (cents)	5	(1.2)	2.6		

The above Statement of Financial Performance should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2004

	Note	Consolidated		Leyshon Resources	
		2004	2003	2004	2003
		\$	\$	\$	\$
Current assets					
Cash assets	18(a)	6,963,532	8,663,152	6,816,974	8,663,152
Receivables	6	7,500	-	7,500	-
Other financial assets	8	14,128	22,525	4,722	22,525
Total current assets		6,985,160	8,685,677	6,829,196	8,685,677
Non-current assets					
Receivables	6	-	-	1,391,450	-
Property, plant and equipment	7	11,919	-	1,940	-
Other financial assets	8	81,941	132,000	11,309,629	132,000
Exploration and evaluation expenditure	9	12,909,679	294,053	294,053	294,053
Investments accounted for using the equity method	10	293,328	-	-	-
Total non-current assets		13,296,867	426,053	12,997,072	426,053
TOTAL ASSETS		20,282,027	9,111,730	19,826,268	9,111,730
Current liabilities					
Payables	11	500,621	101,302	86,070	101,302
Provisions	12	9,284	-	-	-
Total current liabilities		509,905	101,302	86,070	101,302
TOTAL LIABILITIES		509,905	101,302	86,070	101,302
NET ASSETS		19,772,122	9,010,428	19,740,198	9,010,428
EQUITY					
Contributed equity	13	27,381,759	15,456,759	27,381,759	15,456,759
Accumulated losses	14	(7,609,637)	(6,446,331)	(7,641,561)	(6,446,331)
TOTAL EQUITY		19,772,122	9,010,428	19,740,198	9,010,428

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the Financial Year ended 30 June 2004

	Note	Consolidated		Leyshon Resources	
		2004	2003	2004	2003
		\$	\$	\$	\$
Cash flows from operating activities					
Payments to suppliers and employees		(1,185,091)	(3,678,268)	(984,222)	(3,678,268)
Interest received		486,967	401,062	484,958	401,062
Net cash used by operating activities	18(b)	(698,124)	(3,277,206)	(499,264)	(3,277,206)
Cash flows from investing activities					
Payments for property, plant and equipment		(9,056)	-	(2,835)	-
Amounts advanced to related parties		-	-	(1,391,450)	-
Payments for controlled entities (net of cash acquired)	18(c)	(765,341)	-	-	-
Acquisition costs of controlled entities		-	-	(14,629)	-
Joint venture exploration expenditure		(289,099)	-	-	-
Refund of Security bonds		62,000	-	62,000	-
Refund of payments for exploration tenements previously made		-	186,047	-	186,047
Net cash (used in)/provided by investing activities		(1,001,496)	186,047	(1,346,914)	186,047
Cash flows from financing activities					
Repayment of borrowings		-	-	-	-
Net cash used by financing activities		-	-	-	-
Net decrease in cash held		(1,699,620)	(3,091,159)	(1,846,178)	(3,091,159)
Cash at the beginning of the financial year		8,663,152	11,754,311	8,663,152	11,754,311
Cash at the end of the financial year	18(a)	6,963,532	8,663,152	6,816,974	8,663,152

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The financial report has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Significant Accounting Policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

(a) Principles of Consolidation

The consolidated accounts incorporate the assets and liabilities of all entities controlled by Leyshon Resources Limited ("Company or Leyshon") as at 30 June 2004 and the results of all controlled entities for the year then ended. Leyshon and its controlled entities together are referred to in this financial report as the Consolidated Entity. The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Outside equity interests in the results and equity of Controlled Entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during the financial year, its results are included in the Consolidated Entity's Statement of Financial Performance from the date on which control commences.

(b) Receivables

Receivables are recorded at amounts due less any allowance for doubtful debts.

(c) Investments

Shares – investments in controlled entities are carried at the lower of cost and recoverable amount. Dividend revenue is recognised in income when received.

(d) Recoverable amount of non-current assets

Each reporting period, the recoverable amount of all non-current assets is assessed. Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, such as at a mining operation, the recoverable amount is determined on the basis of the relevant group of assets.

The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values using a market-determined, risk-adjusted discount rate. The effect of capital gains tax has not been taken into account.

(e) Accounts payable

Trade payables and other accounts payable are recognised when the Consolidated Entity becomes obliged to make future payments resulting from the purchase of goods and services.

(f) Comparative amounts

Comparative figures are, where appropriate, reclassified so as to be comparable with the figures presented for the current financial year. The reclassification has no impact on the loss attributable to the members of the company for the financial year ended 30 June 2004 or accumulated losses as at 30 June 2003.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004 (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred by the Consolidated Entity upon acquisition is recorded as an asset for each area of interest, if either:

- (i) it is expected to be recouped through successful development of and production from the area, or by its sale; or
- (ii) significant exploration or evaluation of the area is continuing.

A provision for unsuccessful exploration and evaluation is created against each area of interest by means of a charge to the Statement of Financial Performance. The expenditure incurred in areas of interest located around existing milling facilities is provided for over the life of the milling facilities. Expenditure on all other areas of interest is fully provided for as the expenditure is incurred other than for exploration assets acquired, which are initially recorded at cost.

The recoverable amount of each area of interest is determined on a bi-annual basis and the provision recorded in respect of that area adjusted so that the net carrying amount does not exceed the recoverable amount. For areas of interest which are not considered to have any commercial value, or where exploration rights are no longer current, the capitalised amounts are written off against the provision and any remaining amounts are charged against profit.

Exploration and evaluation expenditure incurred by the Consolidated Entity subsequent to acquisition is expensed as incurred.

(h) Mine properties and development

Where it has been established to the satisfaction of Directors that economically recoverable reserves exist, costs incurred on development properties are capitalised and amortised once production has commenced. The amortisation rate is calculated on a units of production basis using the mine life based on economically recoverable reserves.

(i) Property, plant and equipment

Depreciation is calculated on a reducing balance or straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life to the Consolidated Entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:-

Plant and equipment	2 – 15 years
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Where items of property, plant and equipment have separately identifiable components which are subject to regular replacement, those components are assigned useful lives distinct from the item of property, plant and equipment to which they relate.

(j) Employee entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, sick leave and other employee benefits when it is probable that settlement will be required and they are capable of being measured reliably.

Provision made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provision made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Consolidated Entity in respect of services provided by employees up to reporting date.

(k) 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 taxation authority, it is recognized as part of the acquisition cost of an asset or as part of an item of expense.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of other financial assets or payables.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(l) Acquisition of assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

(m) Joint ventures

Joint venture operations

Interests in joint venture operations are reported in the financial statements by including the Consolidated Entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to joint ventures and the share of any expenses incurred in relation to joint ventures in their respective classification categories.

Joint venture entities

Interests in joint venture entities that are:

- Partnerships are accounted for under the equity method in the Company and Consolidated Entity financial statements; and
- Not partnerships are accounted for under the equity method in the Consolidated Entity financial statements and the cost method in the Company financial statements.

(n) Financial Instruments issued by the Company

Debt and Equity Instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction Costs on the Issue of Equity Instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity securities and which would not have been incurred had those instruments not been issued.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004 (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income Tax

Tax-effect accounting principals are adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in the deferred tax assets and deferred tax liabilities, as applicable.

During the financial year, the directors elected that the company and all its wholly-owned Australian resident entities would join a tax-consolidation group. As a result, all income tax expenses, revenues, assets and liabilities of the members of the tax-consolidation group are recognised in the financial statements of the parent entity.

The tax sharing agreement that will be entered into by the members of the tax-consolidation group will have the effect of including in the income tax expense/revenue of the parent entity the tax contribution amounts paid of payable between the parent entity and subsidiary entities. Further information regarding the tax sharing agreement is detailed in note 4(b) to the financial statements.

The current and deferred tax assets and liabilities of the parent entity will not be reduced by any amounts owing from or to subsidiary entities in accordance with the tax sharing agreement as these amounts will be recognised as intercompany receivables and payables.

(p) Foreign Currency

Foreign Currency Transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date.

2. REVENUE

	Consolidated		Leyshon Resources	
	2004	2003	2004	2003
	\$	\$	\$	\$
Revenue from non-operating activities				
Interest revenue – other persons	486,300	387,646	484,958	387,646
Gain on transfer of environmental obligations	-	2,382,624	-	2,382,624
Total revenues from ordinary activities	486,300	2,770,270	484,958	2,770,270

3. EXPENSES AND LOSSES / (GAINS) FROM ORDINARY ACTIVITIES

Profit (loss) from ordinary activities before income tax expense includes the following specific expenses:

(a) Expenses

Depreciation and amortisation				
- plant and equipment	2,638	-	895	-
Net movement in provisions for				
- employee entitlements	9,284	-	-	-
- Write-down to recoverable amount of investments	-	-	(700,000)	-

(b) Auditor's Remuneration

Audit Services				
- Auditors of the Company	17,500	14,500	17,500	14,500
Other Services				
- Auditors of the Company	-	-	-	-
	17,500	14,500	17,500	14,500

4. INCOME TAX EXPENSE

(a) The aggregate amount of income tax attributable to the financial year differs from the amount calculated on the profit/(loss) from ordinary activities before tax. The differences are reconciled as follows:

Profit/(loss) from ordinary activities before tax	(1,163,306)	2,378,099	(1,195,230)	2,378,099
Income tax calculated at 30% (2003: 30%)	(348,992)	713,430	(358,569)	713,430
Tax effect of permanent differences:				
Non-assessable income	-	(714,787)	-	(714,787)
Non-deductible expenditure	16,423	-	105,620	-
Tax losses not brought to account	332,569	1,357	252,949	1,357
Income tax expense	-	-	-	-

Notes to the Financial Statements

For the Financial Year ended 30 June 2004 (continued)

4. INCOME TAX EXPENSE (continued)

- (b) Future income tax benefits arising from tax losses of the Consolidated Entity are not brought to account at balance date as realisation of the benefit is not regarded as virtually certain:

	Consolidated		Leyshon Resources	
	2004	2003	2004	2003
	\$	\$	\$	\$
Tax losses – calculated at 30%	6,877,521	6,544,952	6,797,901	6,544,952

This future income tax benefit will only be obtained if:-

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

Tax Consolidations

Effective 1 July 2003, for the purposes of income taxation, Leyshon Resources Limited and its 100% owned subsidiaries formed a tax consolidated group. Members of the group will enter into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, the agreement will provide for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote.

The head entity of the tax consolidated group is Leyshon Resources Limited. There is no material effect on the future income tax benefits as a result of the revised tax legislation. Leyshon Resources will formally notify the Australian Taxation Office of its adoption of the tax consolidation regime when lodging its 30 June 2004 consolidated tax return.

5. EARNINGS PER SHARE

The following reflects the earnings and share data used in the calculations of basic and diluted earnings per share:

	Consolidated Entity	
	2004	2003
	\$	\$
Net profit/(loss)	(1,163,306)	2,378,099
Adjustments	-	-
Earnings used in calculating basic and diluted earnings per share	(1,163,306)	2,378,099

	Number of	Number of
	Shares	shares
	2004	2003
Weighted average number of ordinary shares used in calculating basic earnings per share	94,636,797	91,467,398
Effect of dilutive securities	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	94,636,797	91,467,398

(a) Conversions, calls, subscriptions or issues after 30 June 2004

On 12 July 2004, 3,500,000 Options exercisable at \$0.30 each on or before 30 June 2007 were granted by the Company. Of the 3,500,000 Options granted, 2,500,000 Options were granted to Greg Jones (Chief Operating Officer of China Metals Pty Ltd) as part of his remuneration package and 1,000,000 Options were issued to other consultants of the Company.

Other than as disclosed above, there have been no conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

(b) Non-dilutive securities

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share:

	Number of securities	Number of securities	Number of potential shares	Number of potential shares
	2004	2003	2004	2003
Converting Preference Shares (Note 13(e))	1,000	-	10,000,000	-
Options – 20 cents exercise price (Note 13(d))	10,000,000	-	10,000,000	-
Options – 30 cents exercise price (Note 13(d))	5,000,000	-	5,000,000	-

6. RECEIVABLES

	Consolidated		Leyshon Resources	
	2004	2003	2004	2003
	\$	\$	\$	\$
Current				
Amounts owing by				
- controlled entities	-	-	45,674	45,674
- other persons	7,500	-	7,500	-
	7,500	-	53,174	45,674
Provision for doubtful debts				
- controlled entities	-	-	(45,674)	(45,674)
	7,500	-	7,500	-
Non-Current				
Amounts owing by				
- controlled entities	-	-	1,391,450	-

Notes to the Financial Statements

For the Financial Year ended 30 June 2004 (continued)

7. PROPERTY, PLANT & EQUIPMENT

	Consolidated		Leyshon Resources	
	2004	2003	2004	2003
	\$	\$	\$	\$
Plant & equipment				
At cost	14,557	904,724	2,835	904,724
Disposals	-	(904,724)	-	(904,724)
Accumulated depreciation	(2,638)	-	(895)	-
Total plant and equipment (Note 7(a))	11,919	-	1,940	-

(a) Reconciliation

Plant and Equipment				
Carrying amount at beginning of year	-	904,724	-	904,724
Additions	14,557	-	2,835	-
Disposals	-	(904,724)	-	(904,724)
Depreciation expense	(2,638)	-	(895)	-
Total plant & equipment	11,919	-	1,940	-

8. OTHER FINANCIAL ASSETS

Current

GST receivable	14,128	22,525	4,722	22,525
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Non-current

Investments - controlled entities (Note 8(a))				
- At cost (Note 18(c))	-	-	11,939,629	-
- Recoverable amount write down	-	-	(700,000)	-
Total Investments – controlled entities	-	-	11,239,629	-
Security deposits	81,941	132,000	70,000	132,000
	81,941	132,000	11,309,629	132,000

Each reporting period, the recoverable amount of all non-current assets is assessed. Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount.

(a) Investments in Controlled Entities

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding	
			2004 %	2003 %
Controlled Entities				
Oremont Limited	Australia	Ordinary	100	100
China Metals Pty Ltd	Australia	Ordinary	100	-

Note

China Metals changed status during the year from a public company (Ltd) to a proprietary company (Pty Ltd)

9. EXPLORATION & EVALUATION EXPENDITURE

	Consolidated		Leyshon Resources	
	2004 \$	2003 \$	2004 \$	2003 \$
Balance brought forward	294,053	480,100	294,053	480,100
Refund of purchase price previously paid for exploration interest	-	(186,047)	-	(186,047)
Exploration interest acquired (see Note 18(c))	12,615,626	-	-	-
Closing balance (i)	12,909,679	294,053	294,053	294,053

Note

- (i) The value of the exploration interests is dependent upon the discovery of commercially viable reserves and the successful development or alternatively sale, of the respective tenements. The Consolidated Entity's exploration properties may at some future time be subject to claims under native title or contain sacred sites or sites of significance to Aboriginal people. In the event of any such claim being made and the National Native Title Tribunal ratifying such claim, the Consolidated Entity's exploration properties or areas within the tenements may be subject to exploration and/or mining restrictions or compensations. This may impact on the commercial viability and/or carrying value of the respective tenements.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004 (continued)

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Name of Entity	Principal Activity	Ownership Interest		Consolidated Carrying Amount	
		2004 %	2003 %	2004 \$	2003 \$
Black Dragon Mining Company Limited	Gold mining and exploration	70	-	293,328	-

Consolidated
2004 **2003**
\$ **\$**

(a) Movement in investment in joint venture entity

Equity accounted amount of investment at the beginning of the financial year	-	-
Acquisition of interest in joint venture entity (via China Metals Pty Ltd)	735,196	-
Share of net loss	(441,868)	-
Equity accounted amount of investment at the end of the financial year	293,328	-

(b) Share of assets and liabilities of joint venture entity

The joint venture entity held no assets or liabilities as at 30 June 2004 (2003: nil)

(c) Expenditure commitments

The Consolidated Entity's share of the exploration expenditure commitments of the joint venture entity are disclosed in Note 21.

11. PAYABLES

	Consolidated		Leyshon Resources	
	2004 \$	2003 \$	2004 \$	2003 \$
Trade creditors and accruals	500,621	101,302	86,070	101,302

12. PROVISIONS

Employee entitlements (see Note 20)	9,284	-	-	-
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13. CONTRIBUTED EQUITY

(a) Issued and paid up capital

	Consolidated		Leyshon Resources	
	2004	2003	2004	2003
	\$	\$	\$	\$
111,467,398 (2003: 91,467,398) fully paid ordinary shares	23,456,759	15,456,759	23,456,759	15,456,759
1,000 (2003: nil) preference shares (see Note 13(e))	200,000	-	200,000	-
10,000,000 (2003: nil) \$0.20 options (see Note 13(d))	2,630,000	-	2,630,000	-
5,000,000 (2003: nil) \$0.30 options (see Note 13(d))	1,095,000	-	1,095,000	-
	27,381,759	15,456,759	27,381,759	15,456,759

(b) Movements in ordinary share capital during the past two years were as follows:

Date	Details	Note	Number of Shares	Number of Preference Shares	Number of \$0.20 Options	Number of \$0.30 Options	\$
01/07/02	Opening Balance		91,467,398	-	-	-	15,456,759
30/06/03	Closing Balance		91,467,398	-	-	-	15,456,759
04/05/04	Acquisition of China Metals	(i)	20,000,000	1,000	10,000,000	5,000,000	11,925,000
30/06/04	Closing Balance		111,467,398	1,000	10,000,000	5,000,000	27,381,759

Note

(i) Following shareholder approval, on 4 May 2004 the Company completed the acquisition of a 100% interest in China Metals Pty Ltd.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004 (continued)

13. CONTRIBUTED EQUITY (continued)

(c) Rights attaching to Shares

The rights attaching to fully paid ordinary shares ("Shares") arise from a combination of the Company's Constitution, statute and general law.

Copies of the Company's Constitution are available for inspection during business hours at the Company's registered office. The clauses of the Constitution contain the internal rules of the Company and define matters such as the rights, duties and powers of its shareholders and directors, including provisions to the following effect (when read in conjunction with the Corporations Act or Listing Rules):

(i) Shares

The issue of shares in the capital of the Company and options over unissued shares by the Company is under the control of the Directors, subject to the Corporations Act, ASX Listing Rules and any rights attached to any special class of shares.

(ii) Transfer of Shares

The Company participates in the electronic share registration and transfer system known as CHES operated by ASX under the Security Clearing House ("SCH") Business Rules. Accordingly, the Company will issue holding statements in lieu of share certificates. The Company will not charge any fee for registering a transfer of shares. The Directors may refuse to register a transfer of shares, or request SCH to apply a holding lock to prevent a proper SCH transfer, in the circumstances identified in the Constitution or as otherwise permitted or required under the Corporations Act or Listing Rules.

(iii) Meetings of members

Directors may call a meeting of members whenever they think fit. Members may call a meeting as provided by the Corporations Act. The Constitution contains provisions prescribing the content requirements of notices of meetings of members and all members are entitled to a notice of meeting. A quorum for a meeting of members is 3 natural persons, each of whom is or represents different Shareholders who are eligible to vote.

The Company holds annual general meetings in accordance with the Corporations Act and the Listing Rules.

(iv) Voting

Subject to any rights or restrictions for the time being attached to any shares or class of shares of the Company, each member of the Company is entitled to receive notice of, attend and vote at a general meeting. Resolutions of members will be decided by a show of hands unless a poll is demanded. On a show of hands each eligible voter present has one vote. However, where a person present at a general meeting represents personally or by proxy, attorney or representative more than one member, on a show of hands the person is entitled to one vote only despite the number of members the person represents.

On a poll each eligible member has one vote for each fully paid share held and a fraction of a vote for each partly paid share determined by the amount paid up on that share.

(v) Dividends

Subject to any rights attaching to shares that may in the future be issued with special or preferred rights, the Directors may fix the amount, the time for payment and the method of payment of a dividend. Subject to any special rights attaching to shares (such as preference shares), dividends will be paid proportionately to the number of shares held by each member. The Company is not required to pay any interest on dividends.

(vi) Winding up

If on a winding up of the Company there remains a surplus, then under the Constitution and subject to any rights attaching to shares which may in the future be issued with special or preferred rights, all assets representing the surplus that may be legally distributed among Shareholders shall be so distributed in proportion to the number of shares held by each Shareholder.

(vii) Changes to the Constitution

The Company's Constitution can only be amended by a special resolution passed by at least three quarters of the members present and voting at a general meeting of the Company. At least 28 days' written notice specifying the intention to propose the resolution as a special resolution must be given.

(viii) Share buy-backs

The Company may buy-back Shares in itself in accordance with the provisions of the Corporations Act.

(ix) Listing Rules

Provided the Company remains admitted to the Official List, then despite anything in its Constitution, no act may be done that is prohibited by the Listing Rules, and authority is given for acts required to be done by the Listing Rules. The Company's Constitution will be deemed to comply with the Listing Rules as amended from time to time.

(d) Terms and conditions of Options

The options granted over unissued shares of the Company have the following material terms and conditions:

(i) Exercise Date

The options shall expire at 5:00 pm (WST) on 30 June 2007. Options not exercised by that date shall lapse.

(ii) Exercise Period

The options are exercisable wholly or in part at any time before the expiry date unless the Directors resolve otherwise (on a case by case basis) prior to the grant of the options.

(iii) Exercise Price

Each option shall entitle the optionholder to acquire one fully paid ordinary share in the Company ("Share") upon payment of the sum of \$0.20 or \$0.30 (as appropriate).

(iv) Notice of Exercise

Subject to paragraph (ii), each option may be exercised at any time before the expiry of the options by the Optionholder completing and forwarding to the Company a notice of exercise and payment of the Exercise Price for each Option being exercised. Any notice of exercise of an Option received by the Company will be deemed to be a notice of the exercise of the Option on the first business day after the date of receipt of the notice. Cheques shall be in Australian currency made payable to the Company and crossed "Not Negotiable".

(v) No Quotation of Options

Application will not be made by the Company to ASX for official quotation of the options.

(vi) Quotation of Shares on Exercise

Application will be made for official quotation of the Shares issued upon exercise of options. The Company will not be under any obligation to ensure that such Shares will be officially quoted.

(vii) Non-Transferable

The options are not transferable.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004 (continued)

13. CONTRIBUTED EQUITY (continued)

(d) Terms and conditions of Options (continued)

(viii) Participation Rights or Entitlements

There are no participating rights or entitlements inherent in the options and optionholders will not be entitled to participate in new issues of securities offered to shareholders before the expiry of the options. However, the Company will ensure that for the purposes of determining entitlements as to any such issue, the record date will be at least 10 business days after the issue is announced so as to give optionholders the opportunity to exercise their options before the date for determining entitlements to participate in any issue.

(ix) Shares Allocated on Exercise

Shares allocated pursuant to the exercise of options will be allotted following receipt of all the relevant documents and payments and will rank equally with all other Shares on issue.

(x) Reconstruction of Share Capital

If at anytime before the expiry of the options there is a reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company, all rights of the optionholder shall be reconstructed in accordance with the ASX Listing Rules.

(xi) Bonus Issues

If at anytime before the expiry of the options the Company makes a pro rata issue of Shares to shareholders for no consideration, the number of Shares over which an option is exercisable will be increased by the number of Shares which the optionholder would have received if the option had been exercised before the date for calculating entitlements to the pro rata issue.

(e) Terms and conditions of Preference Shares

(i) Definitions

In these terms and conditions:

“**ASX**” means Australian Stock Exchange Limited.

“**Black Dragon**” means Black Dragon Mining Company Limited which is a co-operative joint venture company registered in the People's Republic of China and will be 70% owned by China Metals.

“**China Metals**” means China Metals Pty Ltd (ACN 105 958 245).

“**Corporations Act**” means the Corporations Act 2001.

“**Directors**” mean the directors from time to time of Leyshon.

“**Effective Date**” means the date on which the Directors adopt the resolution of the directors of Black Dragon to develop and establish a mine at the Project in accordance with the Feasibility Study and announce the same to ASX.

“Feasibility Study” means the study to be completed as required for the purpose of the directors of Black Dragon resolving to develop and establish a mine at the Project which will include (without limitation) the following:

- (a) proven and probable ore reserves;
- (b) method of mining and treating the ore reserves;
- (c) economics of such reserves;
- (d) operating and capital costs of establishing a mining and processing facility to produce a minimum amount of gold ozs, or equivalent value product per annum, as the then directors of the purchaser determine;

and may require drilling and bulk sampling of ore for metallurgical work.

“Issue Price” means A\$0.20.

“Leyshon” means Leyshon Resources Limited ABN 75 010 482 274.

“Leyshon Shares” means a fully paid ordinary share in the capital of Leyshon.

“Leyshon Shareholder” means a holder of a Leyshon Shares.

“Listing Rules” means the official listing rules of the ASX, as amended, added to or replaced from time to time.

“Preference Share” means a converting cumulative preference share as referred to in clause (ii).

“Preference Shareholder” mean the holder of a Preference Share.

“Project” means the Zheng Guang Gold deposit.

(ii) Type and Price

Leyshon may issue preference shares which will be known as “Preference Shares” each at the Issue Price and on the terms and conditions herein.

(iii) Dividend

(a) Preference Share dividend

Preference Shareholders are entitled to receive the dividend specified in this clause (iii).

(b) Dividend rate

The dividend is fixed at 5% of the Issue Price of each Preference Share. The dividend will be computed from the issue to the conversion date of the Preference Share on the basis of a 365 day year and pro rata for part of a year.

(c) Dividend entitlement

The time for the entitlement to a dividend is 5.00pm (WST) on 30 June of each year during the period from the issue to the conversion date of the Preference Share.

(d) Dividend date

Dividends shall be paid if Leyshon has funds legally available for the payment of dividends within 30 days after the Preference Shareholder becomes entitled to the dividend.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004 (continued)

13. CONTRIBUTED EQUITY (continued)

(e) Terms and conditions of Preference Shares (continued)

(iii) Dividend (continued)

(e) Books closing date

Dividends are payable to the registered holders of each Preference Share as they appear in the register for the Preference Shares at 5.00pm (WST) on 30 June of each year during the period from the issue to the conversion date of the Preference Share.

(f) Method of payment

Dividends shall be deemed paid if paid by cheque or direct debit on (or as soon as practicable after) the date determined by the Directors that a dividend is to be paid to the account or address nominated by the Preference Shareholder.

(g) Preferential

Dividends on the Preference Shares shall rank in priority to dividends on the Leyshon Shares.

(h) Cumulative

Dividends on the Preference Shares will be cumulative.

(i) Pari Passu

Dividends on the Preference Shares shall rank pari passu with all other Preference Shares.

(iv) Redemption

The Preference Shares are not redeemable.

(v) Conversion

(a) Conversion

The Preference Shares will convert into Leyshon Shares in accordance with this clause (v).

(b) Conversion Formula

The Preference Shares will convert into Leyshon Shares as follows:

- (i) if the Effective Date occurs prior to 31 March 2007 then on the basis of ten thousand (10,000) Leyshon Shares for each Preference Share; and
- (ii) if the Effective Date has not occurred by 31 March 2007 then on the basis of one (1) Leyshon Share for each Preference Share

(c) Automatic Conversion

The Preference Share will automatically convert to Leyshon Shares within 15 Business Days of the following dates:

- (i) in accordance with clause (v)(b)(i) the Effective Date; and
- (ii) in accordance with clause (v)(b)(ii) 31 March 2007.

(d) Statements

As soon as practicable after conversion of any Preference Share, Leyshon shall dispatch statements or certificates in respect of the Leyshon Shares issued as a result of the conversion.

(e) After Conversion

The Leyshon Shares issued on conversion of any Preference Share will as and from 5.00pm (WST) on the date of allotment rank equally with and confer rights identical with all other Leyshon Shares then on issue.

(vi) Reconstruction

In the event of any reconstruction, consolidation or division into (respectively) a lesser or greater number of securities of the Leyshon Shares the Preference Shares shall be reconstructed, consolidated or divided in the same proportion as the Leyshon Shares are reconstructed, consolidated or divided and, in any event, in a manner which will not result in any additional benefits being conferred on the Preference Shareholders which are not conferred on the Leyshon Shareholders.

(vii) Winding up

If Leyshon is wound up prior to conversion of all of the Preference Shares into Leyshon Shares then the Preference Shareholders will have the right for each Preference Share held and not converted in Leyshon Shares to be paid cash for the Issue Price and any arrears of dividend in priority to the Leyshon Shareholders but will have no right to participate beyond the extent specified in this clause (vii) in surplus assets or profits of Leyshon on winding up.

(viii) Non-transferable

The Preference Shares are not transferable.

(ix) Copies of notices and reports

The Preference Shareholders have the same right as Leyshon Shareholders to receive notices, reports and audited accounts and to attend general meetings of Leyshon but are only entitled to vote in the circumstances referred to in clause (x).

(x) Voting rights

The Preference Shareholders shall have no right to vote save for those circumstances listed in Listing Rule 6.3.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004 (continued)

14. ACCUMULATED LOSSES

	Consolidated		Leyshon Resources	
	2004	2003	2004	2003
	\$	\$	\$	\$
Balance at the beginning of the financial year	(6,446,331)	(8,824,430)	(6,446,331)	(8,824,430)
Net profit (loss)	(1,163,306)	2,378,099	(1,195,230)	2,378,099
Dividends provided for or paid	-	-	-	-
Balance at the end of the financial year	(7,609,637)	(6,446,331)	(7,641,561)	(6,446,331)
Adjusted franking account balance	16,132,118	16,132,118	16,132,118	16,132,118

15. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Remuneration of Specified Directors and Specified Executives

		Salary & Fees	Super- annuation benefits	Total
		\$	\$	\$
Specified Directors				
Mr Ian Middlemas - <i>Executive Chairman</i>	2004	90,000	-	90,000
Mr Paul Atherley ⁽²⁾ - <i>Managing Director</i>	2004	50,000	-	50,000
Mr Gary Pearce - <i>Non-Executive Director</i>	2004	15,000	1,350	16,350
Mr Mark Pearce - <i>Non-Executive Director & Company Secretary</i>	2004	15,000	-	15,000
Total Remuneration – Specified Directors	2004	170,000	1,350	171,350
Specified Executives ⁽¹⁾				
Mr Greg Jones ⁽³⁾ - <i>Chief Operating Officer - China Metals Pty Ltd</i>	2004	38,226	3,440	41,666
Total Remuneration – Specified Executives	2004	38,226	3,440	41,666

- (1) Other than as outlined above, there were no other specified executives of the Company during the year.
- (2) Appointed as a director of Leyshon on 4 May 2004.
- (3) Commenced employment with China Metals Pty Ltd on 1 March 2004 (remuneration disclosed above relates to the period commencing 4 May 2004, the date of acquisition of China Metals Pty Ltd, based on a salary component of \$250,000 per annum inclusive of superannuation). On 12 July 2004, Mr Jones was granted 2,500,000 Options exercisable at \$0.30 each on or before 30 June 2007 pursuant to his remuneration contract.
- (4) During the financial year, no remuneration was paid in the form of a bonus, long-term incentive bonus, non-monetary benefit, prescribed benefit, equity compensation or other benefit to a specified director or specified executive.

The Board is responsible for determining the nature and amount of emoluments packages applicable to the Board members and senior executives of the Consolidated Entity. The Board's remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities. Remuneration is aimed at being competitive in attracting, motivating and retaining people of the highest quality. The Constitution of the Company provides that Non-Executive Directors may collectively be paid as remuneration for their services at a fixed sum not exceeding the aggregate amount that has been determined by the Company in general meeting.

(b) Option holdings and transactions

Options exercisable @ \$0.20 or \$0.30 (as appropriate) each on or before 30 June 2007 (refer Note 13(d) for terms and conditions)	Held at 1 July 2003	Granted as remuneration	Exercised	Other changes	Held at 30 June 2004	Vested and exercisable at 30 June 2004
Specified Directors						
Mr Ian Middlemas	-	-	-	-	-	-
Mr Paul Atherley ⁽¹⁾	-	-	-	15,000,000	15,000,000	15,000,000
Mr Gary Pearce	-	-	-	-	-	-
Mr Mark Pearce	-	-	-	-	-	-
Specified Executives						
Mr Greg Jones	-	-	-	-	-	-

- (1) Securities were issued to Mr Atherley in his capacity as a vendor of China Metals Pty Ltd.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004 (continued)

15. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(c) Preference share holdings and transactions

Preference shares convertible into 10,000 ordinary fully paid shares each (refer Note 13(e) for terms and conditions)	Held at 1 July 2003	Purchases	Received on exercise of options	Other changes	Sales	Held at 30 June 2004
Specified Directors						
Mr Ian Middlemas	-	-	-	-	-	-
Mr Paul Atherley ⁽¹⁾	-	-	-	500	-	500
Mr Gary Pearce	-	-	-	-	-	-
Mr Mark Pearce	-	-	-	-	-	-
Specified Executives						
Mr Greg Jones	-	-	-	-	-	-

⁽¹⁾ Securities were issued to Mr Atherley in his capacity as a vendor of China Metals Pty Ltd.

(d) Equity holdings and transactions

Ordinary fully paid shares	Held at 1 July 2003	Purchases	Received on exercise of options	Other changes	Sales	Held at 30 June 2004
Specified Directors						
Mr Ian Middlemas	42,291,611	-	-	-	-	42,291,611
Mr Paul Atherley ⁽¹⁾	-	-	-	10,000,000	-	10,000,000
Mr Gary Pearce	1,000,000	-	-	-	-	1,000,000
Mr Mark Pearce	200,000	-	-	-	-	200,000
Specified Executives						
Mr Greg Jones	-	-	-	-	-	-

⁽¹⁾ Securities were issued to Mr Atherley in his capacity as a vendor of China Metals Pty Ltd.

(e) Other transactions

Apollo Group Pty Ltd, a company of which Mr Mark Pearce is a Director and beneficial shareholder, was paid \$109,500 (2003: \$93,000) for the provision of serviced office facilities and administration services during the year. The amount is based on a monthly retainer due and payable in arrears, with no fixed term. This item has been recognised as an expense in the Statement of Financial Performance.

16. SEGMENT INFORMATION

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

Geographical Segment	Australia		China		Consolidated	
	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$
Revenue						
Other revenues	486,300	2,770,270	-	-	486,300	2,770,270
Total segment revenue	486,300	2,770,270	-	-	486,300	2,770,270
Unallocated revenue					-	-
Total consolidated revenue					486,300	2,770,270
Results						
Segment result	(379,985)	2,378,099	(783,321)	-	(1,163,306)	2,378,099
Unallocated expenses					-	-
Loss from ordinary activities before income tax expense					(1,163,306)	2,378,099
Income tax expense					-	-
Net loss					(1,163,306)	2,378,099
Assets						
Segment assets	7,361,131	9,111,730	12,920,896	-	20,282,027	9,111,730
Unallocated assets					-	-
Total assets					20,282,027	9,111,730
Liabilities						
Segment liabilities	95,354	101,302	414,551	-	509,905	101,302
Unallocated liabilities					-	-
Total liabilities					509,905	101,302
Other						
Carrying value of investments accounted for using the equity method	-	-	293,328	-	293,328	-
Share of net loss of joint venture entity accounted for under the equity method	-	-	(441,868)	-	(441,868)	-
Acquisition of segment assets	14,557	-	12,615,626	-	12,630,183	-
Depreciation of segment assets	2,638	895	-	-	2,638	895

Notes to the Financial Statements

For the Financial Year ended 30 June 2004 (continued)

17. CONTROLLED ENTITIES

(a) Wholly-owned Group

Details of interests in wholly-owned controlled entities are set out at Note 8(a). Details of dealings with controlled entities are as follows:

Inter-company Account

Leyshon provides working capital to its controlled entities. Transactions between Leyshon and other controlled entities in the wholly owned group during the financial year ended 30 June 2004 consisted of:

- (i) Working capital advanced by Leyshon;
- (ii) Working capital repaid to Leyshon; and
- (iii) Provision of services by Leyshon to its controlled entities.

The above transactions were made interest free with no fixed terms for the repayment of principal on the working capital advanced by Leyshon.

At balance date amounts receivable from controlled entities net of provision for doubtful debts totalled \$1,391,450 (2003: nil).

(b) Ultimate Parent Company

The ultimate parent company in the wholly-owned group is Leyshon Resources Limited.

18. NOTES TO THE STATEMENTS OF CASHFLOWS

(a) Reconciliation of cash at the end of the financial year

For the purposes of the Statement of Cashflows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cashflows is reconciled to the related items in the Statement of Financial Position as follows:

	Consolidated		Leyshon Resources	
	2004	2003	2004	2003
	\$	\$	\$	\$
Cash	6,963,532	8,663,152	6,816,974	8,663,152

(b) Reconciliation of net cash provided by operating activities to operating (loss)/profit after income tax

	Consolidated		Leyshon Resources	
	2004	2003	2004	2003
	\$	\$	\$	\$
Operating (loss)/profit after income tax	(1,163,306)	2,378,099	(1,195,230)	2,378,099
Depreciation and amortisation	2,638	-	895	-
Profit on transfer of environmental obligations	-	(2,382,624)	-	(2,382,624)
Increase in provision for employee entitlements	9,284	-	-	-
Provision for diminution of investment	-	-	700,000	-
Share of joint venture entity's loss	441,868	-	-	-
Cash relinquished in relation to transfer of environmental obligations	-	(2,469,308)	-	(2,469,308)
Net movement in other assets/liabilities in relation to transfer of environmental obligations	-	(107,376)	-	(107,376)
Decrease in other assets	898	138,253	10,303	138,253
(Decrease)/increase in payables	399,319	(896,626)	(15,232)	(896,626)
Decrease in payables – investing activities	(393,890)	-	-	-
Assets controlled upon acquisition of subsidiary	28,788	-	-	-
Liabilities controlled upon acquisition of subsidiary	(23,723)	-	-	-
Other	-	62,376	-	62,376
Net cash provided (used) by operating activities	(698,124)	(3,277,206)	(499,264)	(3,277,206)

Notes to the Financial Statements

For the Financial Year ended 30 June 2004 (continued)

18. NOTES TO THE STATEMENTS OF CASHFLOWS (continued)

(c) Non cash transactions

30 June 2004

During the financial year ended 30 June 2004, the Company acquired a 100% interest in China Metals Pty Ltd, an unlisted Australian company that is party to a province wide agreement with Heilongjiang Provincial Bureau of Geology and Mineral Resources Exploration and Development (HLJ-BGMR). Under the agreement Leyshon has first right to explore and develop all existing and future projects under the HLJ-BGMR's control.

	\$
Consideration	
- Issued Capital (see Note 18(d))	11,925,000
- Transaction costs	14,629
	11,939,629
- Loan at acquisition date	1,091,450
	13,031,079
Less	
- Non-cash consideration	11,925,000
- Cash held by subsidiary upon acquisition	340,738
	12,265,738
Net Cash Outflow Upon Acquisition	765,341

Net Assets Acquired at 4 May 2004

Cash	340,738
Other financial assets	40,729
Other	57,709
	439,176
Payables	(23,723)
Fair value of net assets	415,453
Fair value of exploration interests arising on acquisition	12,615,626
	13,031,079

30 June 2003

No non-cash transactions were undertaken by the Consolidated Entity during the financial year ended 30 June 2003.

(d) Valuation of Securities

Advice was sought by the Company in relation to the value of the consideration paid by the Company to the vendors of China Metals. Based on this advice, the value of the securities was calculated as follows:

Ordinary Shares

Based on the closing market value and an assessment of the volume weighted average price of the share price of the Company as outlined below, the fair value of the ordinary shares issued was assessed to be \$0.40 each.

Options

The fair value of each option was estimated on the date of grant using the Black-Scholes Option Valuation Model with the following assumptions:

	\$0.20 Options	\$0.30 Options
Dividend yield	-	-
Expected volatility	61%	61%
Historical volatility	61%	61%
Risk-free interest rate	5.34%	5.34%
Expected life of option	3.16 years	3.16 years

The dividend yield reflects the assumption that the current dividend payout will remain unchanged. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The resulting weighted average fair values per option for the options issued as consideration are:

Number of Options	Exercise price	Grant date	Vesting date	Weighted average fair value
10,000,000	\$0.20	4 May 2004	4 May 2004	\$0.263
5,000,000	\$0.30	4 May 2004	4 May 2004	\$0.219

Preference Shares

Based on the discount probability adjusted volume weighted average price approach, the fair value of the preference shares issued was assessed to be \$200 each.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004 (continued)

19. FINANCIAL INSTRUMENTS

(a) Interest rate risk

The Consolidated Entity is exposed to floating interest rates on the cash balance and other financial assets. The effective weighted average interest rate for each class of financial assets and liabilities is set out below.

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Maturing		Non-Interest Bearing	Total
			1 Year or Less	from 1 to 5 Years		
2004		\$	\$	\$	\$	\$
Financial Assets						
Cash and deposits		6,963,532	-	-	-	6,963,532
Receivables		-	-	-	7,500	7,500
Other financial assets		50,000	-	-	46,069	96,069
Total Financial Assets	4.9%	7,013,532	-	-	53,569	7,067,101
Financial Liabilities						
Payables		-	-	-	(500,621)	(500,621)
Total Financial Liabilities		-	-	-	(500,621)	(500,621)
Net Financial Liabilities		7,013,532	-	-	(447,052)	6,566,480

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Maturing		Non-Interest Bearing	Total
			1 Year or Less	from 1 to 5 Years		
2003		\$	\$	\$	\$	\$
Financial Assets						
Cash and deposits		8,663,152	-	-	-	8,663,152
Receivables		-	-	-	-	-
Other financial assets		132,000	-	-	22,525	154,525
Total Financial Assets	4.7%	8,795,152	-	-	22,525	8,817,677
Financial Liabilities						
Payables		-	-	-	(101,302)	(101,302)
Total Financial Liabilities		-	-	-	(101,302)	(101,302)
Net Financial Liabilities		8,795,152	-	-	(78,777)	8,716,375

(b) Credit risk

The Consolidated Entity is exposed to credit related losses in the event of non-performance by counter parties (banks) with respect to the financial instruments, however exposures to individual counter parties are limited in accordance with policy set by the Board.

The credit risk on financial assets which have been recognised on the statement of financial position, other than investments in shares, is generally the carrying amount of the asset.

(c) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Consolidated Entity approximates their carrying value.

20. EMPLOYEE ENTITLEMENTS

	Consolidated		Leyshon Resources	
	2004	2003	2004	2003
	\$	\$	\$	\$
Provision for employee entitlements – current	9,284	-	-	-
Aggregate employee entitlement liability	9,284	-	-	-
Average number of full time equivalent employees during the financial year	1	1		
Number of full time equivalent employees at the end of the financial year	3	1		

21. COMMITMENTS FOR EXPENDITURE

(a) Exploration Expenditure ⁽¹⁾

Not longer than 1 year	2,581,486	-	-	-
Longer than 1 year and not longer than 5 years	4,732,724	-	-	-
Longer than 5 years	-	-	-	-
	7,314,211	-	-	-

⁽¹⁾ The Consolidated Entity is not contractually bound to meet the above expenditure commitments, however these amounts are required under the Black Dragon Mining Company Ltd Joint Venture Agreement to maintain the Consolidated Entity's 70% holding in the project.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004 (continued)

22. LEASES

(a) Operating leases

Consolidated		Leyshon Resources	
2004	2003	2004	2003
\$	\$	\$	\$

Leasing arrangements

The operating lease relates to the lease of a managed office in China for a period of 2 years. The Consolidated Entity does not have an option to acquire the leased asset at the expiry of the lease period.

Non-cancelable operating leases

Not longer than 1 year	50,250	-	-	-
Longer than 1 year and not longer than 5 years	20,552	-	-	-
Longer than 5 years	-	-	-	-
	<hr/> 70,802	<hr/> -	<hr/> -	<hr/> -

23. SUBSEQUENT EVENTS

As at the date of this report there are no matters or circumstances which have arisen since 30 June 2004 that have significantly affected or may significantly affect:


- the operations, in financial years subsequent to 30 June 2004, of the Consolidated Entity constituted by Leyshon Resources Limited and the entities it controls from time to time;
- the results of those operations; or
- the state of affairs, in financial years subsequent to 30 June 2004, of the Consolidated Entity.

Note: Although not a significant subsequent event, refer to note 5(a) for details of options issued post year end.

24. CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

In accordance with the Financial Reporting Council's strategic directive, Leyshon Resources Limited will be required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS") for annual reporting periods beginning on or after 1 January 2005. Accordingly, Leyshon Resources Limited's first half-year report prepared under A-IFRS will be for the half year reporting period ended 31 December 2005, and its first annual financial report prepared under A-IFRS will be for the year ended 30 June 2006.

At the date of this report, the directors of Leyshon Resources Limited have not yet finalised a high level assessment of the impact of A-IFRS on the Consolidated Entity, and consequently have not yet determined how they are going to manage the transition to A-IFRS. However, the directors are monitoring the developments in A-IFRS and the potential impact it will have on the Consolidated Entity, and expect to complete an impact study and commence a plan to prepare the Consolidated Entity to be A-IFRS compliant shortly.



While no decision has yet been made as to the policy alternatives to be applied or the extent to which it will affect the Consolidated Entity, the directors of Leyshon Resources Limited have identified the following as being the key accounting policy differences expected to arise on transitioning to A-IFRS:

- AASB 112 “Income Taxes”
- AASB 136 “Impairment of Assets”
- AASB 139 “Financial Instruments: Recognition and Measurement”

First-time Adoption of A-IFRS

On first-time adoption of A-IFRS, the Consolidated Entity will be required to restate its comparative balance sheet such that the comparative balances presented in the financial report for the year ended 30 June 2005 may not be the balances that will be presented as comparative numbers in the financial report for the following year, as result of the requirement to retrospectively apply the A-IFRS. In addition, certain assets and liabilities may not qualify for recognition under A-IFRS, and will need to be de-recognised. As any adjustments on first-time adoption are to be made against opening retained earnings, the amount of retained earnings at 30 June 2004 presented in the 2005 financial report and the 2006 financial report available to be paid out as dividends may differ significantly.

Various voluntary and mandatory exemptions are available to the Consolidated Entity on first-time adoption, which will not be available on an ongoing basis. The exemptions provide relief from retrospectively accounting for certain balances, instruments and transactions in accordance with A-IFRS, and includes relief from having to restate past business combinations, expense share-based payments granted before 7 November 2002, and the identification of a “deemed cost” for property, plant and equipment.

The impact on Leyshon Resources Limited of the changes in accounting policies on first-time adoption of A-IFRS will be affected by the choices made. The Consolidated Entity is evaluating the effect of the options available on first-time adoption in order to determine the best possible outcome for the Consolidated Entity.

Taxation

The Consolidated Entity currently recognises deferred taxes by accounting for the differences between accounting profits and taxable income, which gives rise to “permanent” and “timing” differences. Under A-IFRS, deferred taxes are measured by reference to the “temporary differences” determined as the difference between the carrying amount and the tax base of assets and liabilities recognised in the balance sheet.

Because A-IFRS has a wider scope than the Consolidated Entity’s current accounting policies, it is likely that the amount of deferred taxes recognised in the balance sheet will increase. In particular, significant increases in deferred tax liabilities are anticipated in relation to deferred taxes associated with fair value adjustments and intangibles arising in relation to pre-transition business combinations and investments in associates.

The Consolidated Entity also has carried forward tax losses which had not been recognised as deferred tax assets as they do not satisfy the “virtually certain” criteria under current Australian GAAP (refer note 4(b)). Under A-IFRS, it may be easier to recognise these tax losses as deferred tax assets as they are recognised based on a “probable” recognition criteria. The impact of this difference may be to increase deferred tax assets on a go-forward basis.

Adjustments to be recognised as amounts of deferred taxes will also result as a consequence of adjustments to the carrying amounts of assets and liabilities resulting from the adoption of other A-IFRS. The likely impact of these changes on deferred tax balances has not currently been determined.

Impairment of Assets

Non-current assets are written down to recoverable amount when the asset’s carrying amount exceeds recoverable amount.

Under A-IFRS, both current and non-current assets, including property, plant and equipment previously excluded as they were measured on the fair value basis, are tested for impairment. In addition, A-IFRS has more prescriptive impairment test, and requires discounted cash flows to be used where value in use is used to assess recoverable amount. Consequently, on adoption of A-IFRS, a further impairment of certain assets may need to be recognised, thereby decreasing opening retained earnings and the carrying amounts of assets. The Consolidated Entity has not yet determined the impact, if any, of any further impairment adjustment that may be required. It is not practicable to determine the impact of the change in accounting policy for future conditions.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004 (continued)

24. CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Financial Assets and Financial Liabilities

Under current Australian GAAP, financial assets and financial liabilities are recognised at cost, at fair value, or at net market value. On adoption of A-IFRS, the Consolidated Entity will be required to classify these financial instruments into various specified categories. The classification of the instrument will affect the instrument's subsequent measurement- at amortised cost using the effective interest rate method, fair value with movements recognised through equity or fair value recognised through the profit and loss. The Consolidated Entity is evaluating the different options available, but has not yet made any determination at reporting date of the accounting to be adopted, and consequently, the impact of the change on the financial statements cannot yet be quantified.

Extractive Industries

An A-IFRS on extractive industries has not yet been issued. Consequently, the Consolidated Entity is unable to determine the change in policies and related impact, if any, that may arise on adoption of A-IFRS on its operations and balances at reporting date.

Directors' Declaration

The directors declare that:

- (a) the attached financial statements and notes thereto comply with accounting standards;
- (b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and the Consolidated Entity;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and
- (d) in the directors' opinion, there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors as required by section 295(5) of the Corporations Act 2001.

On behalf of the Directors



PAUL ATHERLEY
Managing Director

Perth, 30 August 2004

Independent Audit Report



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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LEYSHON RESOURCES LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cashflows, accompanying notes to the financial statements, and the directors' declaration for both Leyshon Resources Limited (the company) and the consolidated entity, for the financial year ended 30 June 2004 as set out on pages 24 to 57. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.



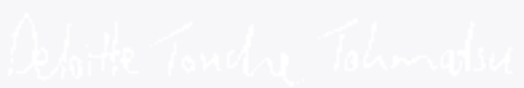
Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

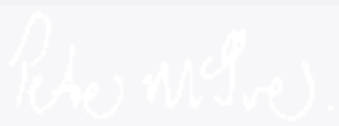
Audit Opinion

In our opinion, the financial report of Leyshon Resources Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



DELOITTE TOUCHE TOHMATSU



Peter McIver

Partner
Chartered Accountants

Perth, 30 August 2004

The liability of Deloitte Touche Tohmatsu, is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).

Additional Information

The shareholder information set out below was applicable as at 30 September 2004.

1. TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest holders of each class of listed securities are listed below:

(a) Ordinary Shares

Name	Number of Ordinary Shares Held	Percentage of Issued Shares
Arredo Pty Ltd	23,791,611	21.34%
Miniscrips Pty Ltd	14,000,000	12.56%
Philip Nominees Pty Ltd	10,000,000	8.97%
Yangtze Investment Pty Ltd	9,000,000	8.07%
Newmont NGL Holdings Pty Ltd	7,819,801	7.02%
Mountainside Investments Pty Ltd <Oasis Super A/C>	4,775,000	4.28%
Newmont Yandal Operations Ltd	4,680,199	4.20%
Mr Ian Peter Middlemas	4,500,000	4.04%
Mrs Jayne Maree Middlemas	4,500,000	4.04%
TRG Corporation Pty Ltd	4,500,000	4.04%
Blackmort Nominees Pty Ltd <36997 Account>	4,133,500	3.71%
Invia Custodian Pty Limited <CMS A/C>	1,717,388	1.54%
T C Corporate Pty Ltd	1,312,482	1.18%
Apostman Holdings Pty Ltd	1,000,000	0.90%
Shardee Pty Ltd <GRP Super Fund A/C>	1,000,000	0.90%
Plaque Enterprises Ltd	941,750	0.84%
Bouchi Pty Ltd	752,036	0.67%
Merrill Lynch (Australia) Nominees Pty Ltd	686,445	0.62%
Cantori Pty Ltd <Cantori Super Fund A/C>	685,310	0.61%
Miniturn Pty Ltd	371,406	0.33%
Total Top 20	100,166,928	89.86%
Others	11,300,470	10.14%
Total Ordinary Shares on Issue	111,467,398	100.00%

2. DISTRIBUTION OF EQUITY SECURITIES

(a) Analysis of security by size of holding – number of security holders

	Ordinary Shares
1 - 1,000	317
1,001 - 5,000	484
5,001 - 10,000	157
10,001 - 100,000	179
100,001 - and over	38
	1,175

(b) Analysis of security by size of holding – number of securities held

	Ordinary Shares
1 - 1,000	183,744
1,001 - 5,000	1,342,054
5,001 - 10,000	1,235,324
10,001 - 100,000	5,613,622
100,001 - and over	103,092,654
	111,467,398

(c) Number of holders of unmarketable parcels

	Ordinary Shares
	420

3. SUBSTANTIAL SHAREHOLDERS

The following details appear in the Company's register of substantial shareholdings as at 30 September 2004:

Substantial Shareholder	Number of Shares
Arredo Pty Ltd	23,791,611
Miniscraps Pty Ltd	14,000,000
Newmont Mining Corporation	12,500,000
Philip Nominees Pty Ltd	10,000,000
Yangtze Investment Pty Ltd	9,000,000

Additional Information

(continued)

4. UNQUOTED SECURITIES

The names of the security holders holding more than 20% of each class of unlisted securities are listed below:

Fully Paid Ordinary Shares Escrowed until 31 March 2005

Philip Nominees Pty Ltd	10,000,000
Yangtze Investment Pty Ltd	9,000,000
1 other holder (less than 20% holding)	1,000,000
TOTAL	20,000,000

Converting Preference Shares

Philip Nominees Pty Ltd	500
Yangtze Investment Pty Ltd	450
1 other holder (less than 20% holding)	50
TOTAL	1,000

\$0.20 Options Expiring 30 June 2007

Philip Nominees Pty Ltd	10,000,000
TOTAL	10,000,000

\$0.30 Options Expiring 30 June 2007

Philip Nominees Pty Ltd	5,000,000
Mr Gregory F P Jones <The Jones Family A/C>	2,500,000
1 other holder (less than 20% holding)	1,000,000
TOTAL	8,500,000

5. VOTING RIGHTS

See Note 13 of the Notes to the Financial Statements.

6. ON-MARKET BUY BACK

There is currently no on-market buy back program for any of Leyshon Resources Limited's listed securities.

7. EXPLORATION INTERESTS

The Company has an interest in the following tenements:

PROJECT	TENEMENT	NAME
KIDSON JOINT VENTURE - LRL 70%	EPMA 11879	PANNIKIN CREEK
	EPMA 11880	GILBERTON
	EPMA 11892	PHYLLIS MAY
	EPMA 12194	BERNECKER CREEK
	EPMA 12472	SPRING CREEK
	EPMA 12475	ORTONA
	EPMA 12476	COBBOLD
	EPMA 12477	GONGORA
	EPMA 12479	NORTH HEAD
	EPMA 11866	PICCANINNY
	EPMA 12120	SATURDAY CREEK
	EPMA 14349	SUGAR BAG
	EPMA 12704	JESTAH
	EPMA 12705	MT MULGRAVE
CARPENTARIA JV - LRL Diluting to 49%	EPMA 12561	FOUNTAIN RANGE
	EPMA 12597	CORELLA RIVER
	EPMA 12180	ST ANDREWS EXTENDED
	EPMA 12207	SOUTH EAST ISA
	EPM 8586	MOUNT MARATHON
	EPM 8588	MOUNT AVARICE
BHP-BILLITON EASTERN SUCCESSION JV - LRL Diluting to 49%	EPM 9462	TRIBUTARY CREEK
	EPMA 12807	MIDDLE CREEK
	EPMA 12514	UNDINA
	EPMA 12516	GIPSY CREEK
	EPMA 12458	UNDINA SOUTH
BHP-BILLITON GRANITE CORNER JV - LRL Diluting to 49%	EPMA 12499	SELWYN CENTRAL
EXCO JV - LRL Diluting to 49%	EPMA 12061	MARONAN
	EPM 12656	YELLOW WATERHOLE

Additional Information

(continued)

7. EXPLORATION INTERESTS (continued)

PROJECT	TENEMENT	NAME
CLONCURRY PROJECT - LRL 100%	EPMA 8344	NICHOLSON RIVER EAST
	EPMA 8345	NICHOLSON RIVER WEST
	EPMA 12408	NINE MILE
	EPMA 12459	WILLIAMS RIVER
	EPMA 12657	COTSWOLD
	EPMA 12530	BOOMERANG
	EPMA 12735	BLACK MOUNTAIN
	EPMA 12601	FLINDERS RIVER
	EPMA 12602	WONDOOLA CREEK
	EPMA 11490	BULONGA ANTICLINE
	EPMA 12181	MALBON
	EPMA 12182	SOUTH PYTHON
	EPMA 12208	SOUTH EAST ISA
	EPMA 12572	GREENSTONE CREEK
NEWCREST JV - LRL Diluting to 30%	EPM 10203	FENIAN
	EPM 14188*	LAURA
MOUNT LEYSHON - LRL 100%	ML 1546	GOLDEN STAR
	ML 10144	MT LEYSHON
	ML 10148	PUDDLER CREEK
	ML 10149	WATER DAM GAP CREEK
	ML 10172	EASTERN STAR
	ML 10173	SOUTHERN STAR
MUSGRAVES - LRL Earning 70%	E69/1552	BAGGALEY HILL
	E69/1554	BARROW HILL
	E69/1555	MT ELVIRE
	E69/1556	MT WAUGH
	E69/1569	MT AGNES
	E69/1837**	BAGGALEY HILL SOUTH

* Held by Newcrest Operations Limited

** Held by Oremont Limited (a 100% owned subsidiary of Leyshon)



