

LEYSHON RESOURCES LIMITED

ABN 75 010 482 274

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2004

CORPORATE DIRECTORY

Directors

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

Secretary

Mark L Pearce

Registered and Principal Offices

Australia

Level 9, BGC Centre
28 The Esplanade
Perth WA 6000
Australia
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China

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Chaoyang District
Beijing 100022
China
Telephone: (86 10) 8528 9256
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Share Register

Computershare Investor Services Pty
Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
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Telephone: 1300 557 010
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Solicitors

Hardy Bowen, Lawyers

Auditor

Deloitte Touche Tohmatsu

Bankers

Australia and New Zealand Banking
Group Limited

Stock Exchange Listing

Leyshon Resources Limited shares
are listed on the Australian Stock
Exchange (Symbol: LRL).

Home Exchange: Perth Office
Australian Stock Exchange
2 The Esplanade
Perth WA 6000
Australia

DIRECTORS' REPORT

The Board of Directors of Leyshon Resources Limited present their report on the consolidated entity of Leyshon Resources Limited ("the Company" or "Leyshon Resources") and the entities it controlled during the half year ended 31 December 2004 ("Consolidated Entity").

DIRECTORS

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

Ian P Middlemas
Paul C Atherley
Gary R Pearce
Mark L Pearce

Unless otherwise shown, all Directors were in office from the beginning of the half-year until the date of this report.

REVIEW AND RESULTS OF OPERATIONS

Operating Results

Net operating loss after tax attributable to members of the Consolidated Entity for the half-year ended 31 December 2004 was \$905,006 (2003: Net operating loss after tax of \$87,285).

During the half year, the Consolidated Entity focused the majority of its resources on progressing its exploration interests in China, which included a 4,500 metre diamond drill programme at the Zheng Guang gold project.

The drilling programme generated new high grade gold results, including a newly identified hydrothermal breccia unit. Hole ZGD029 recorded 24 metres @ 28.6 g/t Au, including 6 metres @ 93.0 g/t Au at about 90 metres below the surface.

The Consolidated Entity also continued to develop new opportunities in China by undertaking extensive due diligence on a number of gold and other mineral projects.

Corporate

A placement of 20 million shares was made to London and Australian institutional investors raising \$7 million. This placement was completed in two tranches, with 16 million shares being issued in December 2004 and a further 4 million shares being issued in February 2005.

In December 2004 the Consolidated Entity announced the intended demerger of the Australian Mining Assets into Echelon Resources Limited. Shareholders approved the demerger and the record date for shareholder entitlement to receive shares in Echelon Resources Limited by way of return of capital has been set as 2 March 2005.

DIRECTORS' REPORT (CONT'D)

Outlook

The Consolidated Entity's focus on China is expected to intensify in the second half of fiscal 2005, with:

- The Managing Director relocating to China in January 2005 and the establishment of a new office in China providing the Consolidated Entity with a substantially improved ability to attract and complete new business development opportunities;
- The implementation of a second drilling programme for the Zheng Guang gold project to follow up on the success of the first drilling programme completed in the December 2004 half year;
- The Consolidated Entity being well capitalised to fund extensive drilling and business development activities in China; and
- The demerger of the Australian Mining Assets allowing for greater focus on China by management.

Auditor's Independence Declaration

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

Signed in accordance with a resolution of Directors.



IAN MIDDLEMAS
Director
Perth, 8 March 2005

DIRECTORS' DECLARATION

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

In the opinion of the directors:

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

On behalf of the Board



IAN MIDDLEMAS
Director

Perth, 8 March 2005

**CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL PERFORMANCE
FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

	Note	Half Year Ended 31 Dec 2004 \$	Half Year Ended 31 Dec 2003 \$
Other revenue from ordinary activities	2	546,696	278,195
Exploration expenses		(851,453)	(156,650)
Administration expenses		(272,728)	(188,830)
Business development expenses		(156,993)	(20,000)
Share of net loss of joint venture accounted for using the equity method		(203,957)	-
Loss from ordinary activities before income tax expense		(938,435)	(87,285)
Income tax expense relating to ordinary activities		-	-
Net loss		(938,435)	(87,285)
Net loss attributable to outside equity interest		33,429	-
Net loss from ordinary activities attributable to members of Leyshon Resources Limited		(905,006)	(87,285)
Non owner transaction changes in equity			
Share issue costs		(125,000)	-
Total revenues, expenses and valuation adjustments attributable to members of Leyshon Resources Limited and recognised directly in equity		(125,000)	-
Total changes in equity from non-owner related transactions attributable to members of Leyshon Resources Limited		(1,030,006)	(87,285)
Earnings Per Share			
Basic loss per share (cents per share)		(0.81)	(0.10)
Dilutive loss per share (cents per share)		(0.81)	(0.10)

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

**CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION
AS AT 31 DECEMBER 2004**

	Note	31 Dec 2004 \$	30 Jun 2004 \$
Current Assets			
Cash assets		11,463,410	6,963,532
Receivables		37,807	7,500
Other financial assets		400,504	14,128
Total Current Assets		11,901,721	6,985,160
Non-Current Assets			
Property, plant and equipment		16,069	11,919
Other financial assets		94,441	81,941
Exploration and evaluation expenditure		13,443,997	12,909,679
Investments accounted for using the equity method		-	293,328
Total Non-Current Assets		13,554,507	13,296,867
TOTAL ASSETS		25,456,228	20,282,027
Current Liabilities			
Payables		769,564	500,621
Provisions		21,078	9,284
Total Current Liabilities		790,642	509,905
TOTAL LIABILITIES		790,642	509,905
NET ASSETS		24,665,586	19,772,122
Equity			
Contributed equity	7	33,060,078	27,381,759
Accumulated losses		(8,514,643)	(7,609,637)
Total parent entity interest		24,545,435	19,772,122
Outside equity interest in controlled entities	8	120,151	-
TOTAL EQUITY		24,665,586	19,772,122

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

	Half Year ended 31 Dec 2004 \$	Half Year ended 31 Dec 2003 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(1,078,245)	(303,695)
Receipts from customers	19,983	-
Interest received	168,743	278,195
Interest paid	(637)	-
	(890,156)	(25,500)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of plant and equipment	(7,781)	(2,835)
Payments for security bonds	(5,000)	-
Performance deposit paid	(400,504)	-
Loans to unrelated entities	-	(158,450)
	(413,285)	(161,285)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	5,803,319	-
	5,803,319	-
NET INCREASE/(DECREASE) IN CASH HELD	4,499,878	(186,785)
Cash at the beginning of the half year	6,963,532	8,663,152
CASH AT THE END OF THE HALF YEAR	11,463,410	8,476,367

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004

1. BASIS OF PREPARATION

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the economic entity as the full financial report.

The half year report should be read in conjunction with the Annual Financial Report of Leyshon Resources Limited as at 30 June 2004. It is also recommended that the half-year report be considered together with any public announcements made by Leyshon Resources Limited and its controlled entities during the half-year ended 31 December 2004 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of Accounting

The half-year financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The half-year financial report has been prepared in accordance with the historical cost convention. The accounting policies adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the 2004 annual financial report.

For the purposes of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Principles of Consolidation

On 1 November 2004, the Consolidated Entity gained control of Black Dragon Mining Company Limited. Prior to obtaining control, the Consolidated Entity's interest in this company was shown as an investment accounted for using the equity method.

From 1 November 2004, the investment is no longer accounted for using the equity method and is accounted for as a controlled entity in accordance with the accounting policy set out in Note 1(a) to the 2004 annual report. Accordingly, from this date, the results of this entity have been included in the consolidated statement of financial performance and the assets and liabilities are included in the consolidated statement of financial position.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

	Half Year Ended 31 December 2004 \$	Half Year Ended 31 December 2003 \$
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2. REVENUE FROM ORDINARY ACTIVITIES

Revenue from non-operating activities	Note		
Interest received/receivable		168,743	278,195
Consulting fees		51,498	-
Charges to joint ventures	2(a)	291,367	-
Foreign exchange gain		35,088	-
		<u>546,696</u>	<u>278,195</u>

(a) The Consolidated Entity incurs costs in accordance with the joint venture agreement. Amounts attributable to the joint venture are invoiced to the joint venture and recorded as revenue. No profit is made on these transactions.

The amount included as revenue is for the period to 31 October 2004 only as amounts from 1 November 2004 are eliminated as intercompany transactions. (see note 1b))

The accounts include the following revenue and expense items:

Revenue from joint ventures	291,367	-
Costs incurred in accordance with the joint venture agreement	291,367	-
Net gain/(loss)	<u>-</u>	<u>-</u>

3. DIVIDENDS PAID OR PROVIDED FOR

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

4. SUBSEQUENT EVENTS AFTER BALANCE DATE

Other than as disclosed below, there were no significant events occurring after balance date requiring disclosure in the financial statements.

1. On 24 January 2005 shareholders approved the demerger of the Consolidated Entity's Australian Mining Assets into Echelon Resources Limited;
2. Following shareholder approval, on 28 January 2005 the Company granted 2,700,000 incentive options with an exercise price of 35 cents and an expiry date of 31 December 2007;
3. Following shareholder approval, on 4 February 2005 the Company issued 4,000,000 fully paid shares at 35 cents each; and
4. On 21 February 2005, the Company announced the record date as being 2 March 2005 for the purpose of determining the entitlement to receive shares in Echelon Resources Limited (by way of a return of capital) on the basis of one Echelon share for ever thirteen Leyshon Resources shares held.

5. SEGMENT INFORMATION

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

	<u>Australia</u>		<u>China</u>		<u>Consolidated</u>	
	Half - Year 2004 \$	Half - Year 2003 \$	Half - Year 2004 \$	Half - Year 2003 \$	Half - Year 2004 \$	Half - Year 2003 \$
Revenue						
Other revenue	164,709	278,195	381,987	-	546,696	278,195
Total segment revenue	164,709	278,195	381,987	-	546,696	278,195
Unallocated revenue	-	-	-	-	-	-
Total revenue	164,709	278,195	381,987	-	546,696	278,195
Results						
Segment result	(274,679)	(87,285)	(663,756)	-	(938,435)	(87,285)
Unallocated expenses	-	-	-	-	-	-
Loss from ordinary activities before income tax expense	(274,679)	(87,285)	(663,756)	-	(938,435)	(87,285)
Income tax expense	-	-	-	-	-	-
Net loss	(274,679)	(87,285)	(663,756)	-	(938,435)	(87,285)

6. CONTINGENT ASSETS AND LIABILITIES

At the last annual reporting date, the Consolidated Entity did not have any contingent assets or liabilities. There has been no material change in the contingent assets or liabilities of the Consolidated Entity during the half year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

	31 December 2004 \$	30 June 2004 \$
7. CONTRIBUTED EQUITY		
Issued and paid up capital – 127,466,558 (111,467,398: 30 June 2004) fully paid ordinary shares	<u>33,060,078</u>	<u>27,381,759</u>

(a) **Movements in securities on issue during the past two years were as follows:-**

Date	Details	Number of Ordinary Shares	Number of Pref Shares	Number of \$0.20 Options	Number of \$0.30 Options	\$
01 Jul 2002	Opening balance	91,467,398	-	-	-	15,456,759
30 Jun 2003	Closing balance	<u>91,467,398</u>	-	-	-	-
4 May 04	Acquisition of China Metals	20,000,000	1,000	10,000,000	5,000,000	11,925,000
30 Jun 2004	Closing balance	<u>111,467,398</u>	<u>1,000</u>	<u>10,000,000</u>	<u>5,000,000</u>	<u>27,381,759</u>
12 Jul 04	Grant of incentive options	-	-	-	3,500,000	-
24 Dec 04	Placement	15,999,160	-	-	-	5,599,706
	Foreign exchange gain on placement	-	-	-	-	203,613
	Capital raising costs	-	-	-	-	(125,000)
31 Dec 2004	Closing balance	<u>127,466,558</u>	<u>1,000</u>	<u>10,000,000</u>	<u>8,500,000</u>	<u>33,060,078</u>

	31 December 2004 \$	30 June 2004 \$
8. OUTSIDE EQUITY INTEREST IN CONTROLLED ENTITIES		
Interest in:		
Capital	430,362	-
Accumulated losses	(310,211)	-
	<u>120,151</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

9. INVESTMENT IN CONTROLLED ENTITY

On 1 November 2004, the Consolidated Entity gained control over the decision making of financial and operating policies of Black Dragon Mining Company Limited ("Black Dragon"). Accordingly, from this date, Black Dragon has been treated as a controlled entity and is no longer accounted for using the equity method.

Entity Name	Date of Gain of Control	Consolidated Entity's interest		Contribution to consolidated net loss since gain of control	
		31 December 2004 %	31 December 2003 %	31 December 2004 \$	31 December 2003 \$
Black Dragon Mining Company Limited	1 November 2004	70	-	(78,001)	-

Black Dragon is involved in exploration for minerals and all costs associated with these activities are expensed as incurred. As a result, Black Dragon had a net asset value of nil as at 1 November 2004. Details of the acquisition are as follows:

Consideration, being:	\$
Equity accounted carrying value of investment as at acquisition date	<u>380,738</u>
Fair value of identifiable net assets of controlled entity acquired	-
Fair value of exploration interests arising on acquisition	<u>380,738</u>
Net assets acquired as at 1 November 2004	<u>380,738</u>

There were no cash transactions or balances arising from or relating to this gain of control.

10. CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Australian Accounting Standards Board is adopting the Standards of the International Accounting Standards Board for application to reporting periods beginning on or after 1 January 2005. Accounting standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' prescribes transitional provisions for first-time adopters.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004

10. CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

AASB 1047 'Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards' requires financial reports to disclose information about the impacts of any changes in accounting policies in the transition period leading up to the adoption date and will apply for 31 December 2004 reporting.

The Company has allocated internal resources and in conjunction with expert consultants is assessing those accounting policies and key areas that are likely to be impacted by the transition to International Financial Reporting Standards (IFRS). As the Company has a 30 June year-end, priority has been given to the consideration of the impact of the Australian equivalents to the IFRS and the preparation of a balance sheet in accordance with those Australian equivalent standards as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when the Company prepares its first fully IFRS compliant report for the year ended 30 June 2006. As required by AASB 1047, the key accounting policies which will change and may have an impact on the financial report of the Company are set out below.

Taxation

Under AASB 112 "Income Taxes", a balance sheet approach will be adopted for calculating taxation, replacing the "statement of financial performance approach". This method recognises deferred tax balances for all temporary differences arising between the carrying value of an asset or liability and its tax base. Whilst there will be enhanced disclosure of the composition of the deferred tax assets and liabilities it is not expected that there will be any significant impact in terms of the statement of financial position or performance.

Financial Instruments

Under AASB 139 "Financial Instruments: Recognition and Measurement" financial instruments will be required to be classified into five categories and to be measured based on the nature of the classification. The five categories and basis of measurement are:

- Held for trading - measured at fair value with changes charged to net profit or loss
- Held to maturity investments measured at amortised cost, subject to impairment
- Loans and receivables measured at amortised cost, subject to impairment
- Available for sale assets measured at fair value with changes in fair value taken directly in equity
- Non-trading liabilities - measured at amortised cost

This will result in a change in the current accounting policy that does not classify financial instruments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004

10. CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

Impairment of Assets

Under AASB 136 "Impairment of Assets" the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change to the Company's current accounting policy which determines recoverable amount of an asset on the basis of undiscounted cash flows. Under the new policy it is likely that the impairment of assets will be recognised sooner and the amount of write-downs will be greater.

Capitalised Exploration and Evaluation Expenditure

The Consolidated Entity currently uses the "area of interest" principles which are used commonly in Australia and are in accordance with the Australian Accounting Standard AASB 1022 "Accounting for the Extractive Industries". The AASB has recently released AASB 6 *Exploration for and Evaluation of Mineral Resources*, which is not expected to cause significant changes to the Consolidated Entity's accounting for capitalised exploration and evaluation expenditure. AASB 6 continues to allow an area of interest approach to impairment and the standard effectively permits the grandfathering of existing accounting treatments of exploration and evaluation expenditure. Impairment tests of exploration and evaluation assets will be required once technical feasibility and commercial viability is determinable.

Board of Directors
Leyshon Resources Limited
Level 9, BGC Centre
28 The Esplanade
PERTH WA 6000

8 March 2005

Dear Directors

Leyshon Resources Limited

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

As lead audit partner for the audit of the financial statements of Leyshon Resources Limited for the half-year ended 31 December 2004, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



A T Richards
Partner
Chartered Accountants

Independent audit report to the members of Leyshon Resources Limited

Scope

We have audited the financial report of Leyshon Resources Limited for the half-year ended 31 December 2004 as set out on pages 4 to 15. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half-year or from time to time during the half-year. The disclosing entity's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it, so as to enable the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. 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. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows.


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

Audit Opinion

In our opinion, the half-year 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 consolidated entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.


DELOITTE TOUCHE TOHMATSU


A T Richards
Partner
Chartered Accountants
Perth, 8 March 2005