LEYSHON RESOURCES LIMITED

ABN 75 010 482 274

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2005

CORPORATE DIRECTORY

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

Secretary
Mark L Pearce

Registered and Principal Offices

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

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 its subsidiaries during the half-year ended 31 December 2005 ("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
Mark L Pearce

Gary R Pearce held office as a director until his resignation on 28 September 2005. 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 2005 was $2,220,295 (2004: Net operating loss after tax of $1,140,558).

Operations

Zheng Guang

A 12,100 metre diamond drilling programme at the Zheng Guang gold project was successfully completed during the half-year. The programme was designed to infill drill mineralised blocks defined in the 2004 drill programme, test for extensions at depth and along strike and to gain a better understanding of the complex geometry of the mineralised system.

The programme, which had eight rigs in operation at its peak, was ahead of schedule with higher productivity than the previous year and reasonably good overall core recovery.

When it became clear that a large proportion of the mineralisation comprised high grade, steeply east-dipping veins (ladder vein arrays) within the west-dipping faults, two additional rigs with shallow angle drilling and larger core capacity were mobilised to better test these mineralised blocks. The rigs were also used to collect representative core for metallurgical testwork.

The angled holes, drilled both across and down the dip of the primary west dipping faults, have confirmed a greater density of generally thin veins in some areas and in other areas have intersected zones of thick mineralisation.

As expected with the mesothermal style of Zheng Guang mineralisation, there are significant base metals associations and in this case there is a strong correlation between gold grades and the zinc and silver grades reported in the assays. Interpretation of the geology and geochemistry of the high grade zinc/silver mineralisation, which ranges up to 18% zinc and 150 g/t silver, has highlighted a positive association with the strongly gold mineralised northwest-trending structures.

This association has the potential for significant economic benefit to the project, enhancing the potential for the economic recovery of gold, zinc and silver.

These final results have in the Directors' view further enhanced the development potential of Zheng Guang which is the first resource project to be developed by a foreign company in the mineral rich province of Heilongjiang.

Duobaoshan Copper Project

The Company is awaiting the outcome of a scoping study being undertaken by Ausenco to enable it to determine whether it wishes to proceed with a development proposal for this project.

Corporate

The Company was admitted onto the London Stock Exchange's AIM market and trading in the Company's securities commenced on 26 October 2005.

The Company continues to evaluate a number of acquisition and development opportunities both within China and its neighbouring countries taking advantage of its operating base in Beijing and knowledge gained operating in the country over the past two years.

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires our auditors, Deloitte Touche Tohmatsu, to provide the directors of Leyshon Resources Limited with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is on page 26 and forms part of this Directors' Report.

DIRECTORS' REPORT (CONT'D)

Signed in accordance with a resolution of Directors.

IAN MIDDLEMAS
Director
Perth, 16 March 2006

Geological Information

The information in this report relating to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Malcolm Wilson, a full time employee of the Company, who is a member of the Australasian Institute of Mining and Metallurgy.

Mr Wilson has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Wilson consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors on 14 March 2006 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, 16 March 2006

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Note	Half-year Ended 31 Dec 2005 $	Half-year Ended 31 Dec 2004 $
Revenue	2	**207,161**	**220,241**
Other income	3	1,035,000	35,088
Exploration expenses		(2,481,222)	(795,638)
Administration expenses		(957,475)	(272,728)
Business development expenses		(532,097)	(156,993)
Share of net loss of joint venture accounted for using the equity method		-	(203,957)
Loss before income tax		**(2,728,633)**	**(1,173,987)**
Income tax expense		-	-
Loss for the half-year		**(2,728,633)**	**(1,173,987)**
Loss attributable to minority interest		508,338	33,429
Loss attributable to members of Leyshon Resources Limited		**(2,220,295)**	**(1,140,558)**
Earnings Per Share			
Basic loss per share (cents per share)		(1.69)	(1.02)
Diluted loss per share (cents per share)		(1.69)	(1.02)

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

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Note	31 Dec 2005 $	30 Jun 2005 $
ASSETS			
Current Assets			
Cash and cash equivalents		6,126,531	9,488,951
Receivables		100,647	53,185
Total Current Assets		**6,227,178**	**9,542,136**
Non-Current Assets			
Other financial assets at fair value through profit or loss		1,350,001	-
Other financial assets		-	349,442
Property, plant and equipment		11,127	11,447
Exploration and evaluation expenditure		13,171,841	12,722,473
Total Non-Current Assets		**14,532,969**	**13,083,362**
TOTAL ASSETS		**20,760,147**	**22,625,498**
LIABILITIES			
Current Liabilities			
Payables		707,277	414,024
Provisions		8,550	28,304
Total Current Liabilities		**715,827**	**442,328**
Non-Current Liabilities			
Deferred tax liabilities		3,604,688	3,604,688
Total Non-Current Liabilities		**3,604,688**	**3,604,688**
TOTAL LIABILITIES		**4,320,515**	**4,047,016**
NET ASSETS		**16,439,632**	**18,578,482**
EQUITY			
Issued capital	8	32,414,432	32,414,432
Reserves		958,664	880,204
Accumulated losses		(16,994,379)	(14,834,084)
Parent entity interest		16,378,717	18,460,552
Minority interest		60,915	117,930
TOTAL EQUITY		**16,439,632**	**18,578,482**

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Half-year Ended 31 Dec 2005 $	Half-year Ended 31 Dec 2004 $
Issued Capital		
Issued and paid up capital - at the beginning of the half-year	**32,414,432**	27,381,759
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity	**-**	5,678,319
	-	5,678,319
Issued and paid up capital - at the end of the half-year	**32,414,432**	33,060,078
Option Premium Reserves		
Option premium reserve at the beginning of the half-year	**880,204**	-
Share options	**73,897**	235,552
Total recognised income and expense for the half-year	**73,897**	235,552
Option premium reserves at the end of the half-year	**954,101**	235,552
Foreign Exchange Reserve		
Foreign exchange reserves at the beginning of the half-year	**-**	-
Exchange differences on translation of foreign operations attributable to members of Leyshon Resources Limited	**4,563**	-
Total recognised income and expense for the half-year	**4,563**	-
Foreign Exchange Reserves at the end of the half-year	**4,563**	-

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (CONTINUED)

	Half-year Ended 31 Dec 2005 $	Half-year Ended 31 Dec 2004 $
<u>**Accumulated Losses**</u>		
Accumulated losses at the beginning of the half-year	**(14,834,084)**	(11,394,325)
Adjustment on adoption of AASB 132 and AASB 139, net of tax	**60,000**	-
Restated balance after adoption of AASB 132 and 139	**(14,774,084)**	(11,394,325)
Loss for the half-year attributable to members of Leyshon Resources Limited	**(2,220,295)**	(1,140,558)
Accumulated losses at the end of the half-year	**(16,994,379)**	(12,534,883)
<u>**Minority Interest**</u>		
Minority interest at the beginning of the half-year	**117,930**	-
Exchange differences on translation of foreign operations attributable to the minority interest	**1,956**	-
Loss for the half-year attributable to the minority interest	**(508,338)**	(33,429)
Minority interest in capital at date of obtaining control	**-**	430,362
Minority interest in accumulated losses at date of obtaining control	**-**	(276,782)
Additions to the minority interest	**449,367**	-
Minority interest at the end of the half-year	**60,915**	120,151
Total recognised income and expense for the half year is attributable to:		
Exchange differences on translation of foreign operations attributable to members of Leyshon Resources Limited	**4,563**	-
Net income recognised directly in equity	**4,563**	-
Loss for the half-year attributable to members of Leyshon Resources Limited	**(2,220,295)**	(1,140,558)
Total recognised income and expense for the half-year is attributable to members of Leyshon Resources Limited	**(2,215,732)**	(1,140,558)
Minority interest	**(506,382)**	(33,429)
	(2,722,114)	(1,173,987)

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Half-year ended 31 Dec 2005 $	Half-year ended 31 Dec 2004 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(3,606,185)	(1,078,245)
Receipts from customers	22,337	19,983
Interest received	204,648	168,743
Interest paid	(134)	(637)
Net cash flows used in operating activities	(3,379,334)	(890,156)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of plant and equipment	(2,999)	(7,781)
Payments for security bonds	-	(5,000)
Performance deposit paid	-	(400,504)
Refunds of security bonds	7,500	-
Net cash flows from/(used in) investing activities	4,501	(413,285)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	5,803,319
Net cash flows from financing activities	-	5,803,319
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(3,374,833)	4,499,878
Cash and cash equivalents at the beginning of the half-year	9,488,951	6,963,532
Effects of exchange rate changes on cash and cash equivalents	12,413	-
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	6,126,531	11,463,410

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report for the interim half-year reporting period ended 31 December 2005 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of Leyshon Resources Limited for the year ended 30 June 2005 and any public announcements made by Leyshon Resources Limited and its subsidiaries during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards
This interim financial report is the first Leyshon Resources Limited interim financial report to be prepared in accordance with Australian Equivalents to International Financial Reporting Standards ("AIFRSs"). AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Leyshon Resources Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Leyshon Resources Limited interim financial report for the half-year ended 31 December 2005, management has amended certain accounting and valuation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 9.

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets (including derivative instruments) at fair value through profit or loss.

(b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Leyshon Resources Limited ("company" or "parent entity") as at 31 December 2005 and the results of all subsidiaries for the half-year then ended. Leyshon Resources Limited and its subsidiaries together are referred to as the Group or the Consolidated Entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

Intercompany transactions and balances, and unrealised gains on transactions between Group companies, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

(c) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign Currency Translation

(i) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency. Refer to note 1(d)(iv) for details of a change in the functional currency of a subsidiary.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

Where a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(iv) Change in functional currency of Black Dragon Mining Company Limited

During the financial period, all outstanding approvals in respect of the Zheng Guang Gold Project were received, including the Exploration Licence being transferred to Black Dragon Mining Company Limited and the Business Licence being renewed. Prior to these approvals, the operations of Black Dragon were conducted through its holding company, China Metals Pty Ltd, primarily in Australian dollars and accordingly it was accounted for in Australian dollars. Subsequent to receipt of these approvals, the operations of Black Dragon have been separated from the holding company and conducted in China, through bank accounts held in Chinese Renminbi, with payments being made primarily in Chinese Renminbi. Accordingly, the functional currency of Black Dragon has been changed to Chinese Renminbi and the accounts of this subsidiary are now being prepared in this currency.

(e) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised:
Interest
Interest is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.
Consulting fee
Consulting fees are recognised by reference to the stage of completion of the contract.

(f) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Leyshon Resources Limited and its wholly owned Australian controlled entities have not implemented the tax consolidation legislation.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Operating Leased Assets

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leased assets, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are not capitalised and rental payments are expensed to the income statement over the lease term on a straight line basis except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(h) Acquisition of Assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.
Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Impairment of Assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment where an asset does not generate cash flows that are independent from other assets, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(j) Cash and Cash Equivalents

"Cash and cash equivalents" includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet

(k) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

(l) Other Financial Assets

From 1 July 2004 to 30 June 2005
The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 30 June 2005.

Adjustments on transition date: 1 July 2005
The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Changes in fair value are taken to the income statement. At the date of transition (1 July 2005) changes to carrying amounts are taken to retained earnings (see the Statement of Changes in Equity).

From 1 July 2005
The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired.

(i) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date.

(ii) Available-for-sale financial assets
Available-for-sale financial assets, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date–the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are included in the income statement in the period in which

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

(iii) Loans and receivables
Trade receivables, loans and other receivables are recorded at amortised costs less impairment.

(m) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

(n) Property, Plant and Equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Plant and equipment are depreciated or amortised at rates based upon their expected useful lives as follows.

	Life	**Method**
Plant and Equipment	2 - 15 years	Diminishing value

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave, accumulating sick leave and long service leave expected to be settled within twelve months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The liability for long service leave not expected to be settled within 12 months is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Contributions to the defined contribution superannuation fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(q) Issued Capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are included in the cost of the acquisition as part of the purchase consideration.

(r) Dividends

Provision is made for the amount of any dividend declared on or before the end of the half-year but not distributed at balance date.

(s) Earnings per Share (EPS)

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the half-year, adjusted for bonus elements in ordinary shares issued during the half-year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Exploration and evaluation expenditure

Exploration and evaluation expenditure encompasses expenditures incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Exploration and evaluation expenditure incurred by the Group is accumulated for each area of interest and recorded as an asset if:

(i) the rights to tenure of the area of interest are current; and
(ii) at least one of the following conditions is also met:
(1) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and/or
(2) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

For each area of interest, expenditure incurred in the acquisition of rights to explore is capitalised, classified as tangible or intangible, and recognised as an exploration and evaluation asset. Exploration and evaluation assets are measured at cost at recognition. Exploration and evaluation expenditure incurred by the Group subsequent to acquisition of the rights to explore is expensed as incurred.

Capitalised exploration costs are reviewed each reporting date to establish whether an indication of impairment exists. If any such indication exists, the recoverable amount of the capitalised exploration costs is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision is made to proceed with development, accumulated expenditure is tested for impairment and transferred to development properties, and then amortised over the life of the reserves associated with the area of interest once mining operations have commenced.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(u) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(v) Share Based Payments

Share based payments may be provided to directors, employees, consultants and other advisors.

For share options granted before 7 November 2002 and /or after 7 November 2002 but vested before 1 January 2005 no expense is recognised. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

For share options granted after 7 November 2002 and vested after 1 January 2005, the following treatment is adopted:

The fair value of options granted is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the holders become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.
The fair value of the options granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Half-year Ended 31 December 2005 $	Half-year Ended 31 December 2004 $
2. REVENUE		
Interest received/receivable	207,161	168,743
Consulting fees	-	51,498
	207,161	220,241
3. OTHER INCOME		
Fair value gains on other financial assets at fair value through profit or loss	1,035,000	-
Foreign exchange gain	-	35,088
	1,035,000	35,088

4. DIVIDENDS PAID OR PROVIDED FOR

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

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:

Half-year 2005	Australia Half -Year 2005 $	China Half -Year 2005 $	Unallocated Half -Year 2005 $	Consolidated Half -Year 2005 $
Revenue				
Total segment revenue	-	-	-	-
Unallocated revenue	-	-	-	-
Total revenue	-	-	-	-
Results				
Segment result	8,164	(2,943,958)		(2,935,794)
Unallocated revenue less unallocated expenses	-	-	207,161	207,161
Profit/(loss) before income tax	8,164	(2,943,958)	207,161	(2,728,633)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

Half-year 2004	Australia Half -Year 2004 $	China Half -Year 2004 $	Unallocated Half -Year 2004 $	Consolidated Half -Year 2004 $
Revenue				
Total segment revenue	-	51,498	-	51,498
Unallocated revenue	-	-	-	-
Total revenue	-	51,498	-	51,498
Results				
Segment result	(678,974)	(459,799)	-	(1,138,773)
Share of net loss of joint venture accounted for using the equity method	-	(203,957)	-	(203,957)
Unallocated revenue less unallocated expenses	-	-	168,743	168,743
Loss before income tax	(678,974)	(663,756)	168,743	(1,173,987)

6. SUBSEQUENT EVENTS AFTER BALANCE DATE

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

7. CONTINGENT ASSETS AND LIABILITIES

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

8. EQUITY SECURITIES ISSUED

	Half-year		Half-year	
	2005 Shares	2004 Shares	2005 $	2004 $
Issues of ordinary shares during the half-year				
Issue of Shares	-	15,999,160	-	5,678,319
	-	15,999,160	-	5,678,319

9. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs

(a) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

	Notes	Previous AGAAP $	Effect of transition to AIFRS $	AIFRS $
TOTAL EQUITY				
(i) At the date of transition to AIFRS: 1 July 2004	(1)	19,772,122	(3,784,688)	15,987,434
(ii) At the end of the last half-year reporting period under previous AGAAP: 31 December 2004	(1)	24,665,586	(3,784,688)	20,880,898
(iii) At the end of the last reporting period under previous AGAAP: 30 June 2005	(1)	22,183,170	(3,604,688)	18,578,482

(b) Reconciliation of profit/(loss) under previous Australian Generally Accepted Accounting Principles (AGAAP) to profit/(loss) under Australian equivalents to IFRSs (AIFRS)

PROFIT/(LOSS)				
(i) Reconciliation of loss for the half-year ended 31 December 2004	(2)	(938,435)	(235,552)	(1,173,987)
(ii) Reconciliation of loss for the year ended 30 June 2005	(1),(2)	(2,947,732)	(700,204)	(3,647,936)

(c) Reconciliation of cash flow statement

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

9. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs (CONTINUED)

(d) Notes to the reconciliations

(1) Income Tax

Under AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the balance sheet and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This has resulted in a change to the previous AGAAP accounting policy, under which deferred tax balances were determined using the income statement method, items were only tax effected if they were included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes could not be recognised directly in equity.

Under AIFRS, the criteria for recognition of carried forward tax losses is 'probable' as compared to the current 'virtually certain' test. The Consolidated Entity has carried forward tax losses which have not been recognised as deferred tax assets as they do not satisfy the 'probable' criteria under AIFRS.

Adoption of AASB 112 has resulted in an increase in total consolidated deferred tax liabilities of $3,784,688 and $3,604,688 at 31 December 2004 and 30 June 2005 respectively.

A deferred tax liability of $3,784,688 as at 1 July 2004 relating to exploration and evaluation expenditure arising from acquisition of a controlled entity. A reduction of the deferred tax liability was recorded during the year ended 30 June 2005 for the amount of $180,000 relating to the expensing of part of the above-mentioned exploration and evaluation expenditure asset.

(2) Share Based Payments

Under AASB 2 *Share Based Payments*, from 1 July 2004 the group is required to recognise an expense for those options that were issued as compensation to employees and other consultants after 7 November 2002 but that had not vested by 1 January 2005.

This has resulted in a change to the previous AGAAP accounting policy under which no expense was recognised for equity based compensation.

Adoption of AASB 2 during the year ended 30 June 2005 resulted in the consolidated employee benefits expense (included in exploration expenses) increasing by $462,004, and consolidated administration and corporate expense increasing by $418,200 with a corresponding increase in the net movement in the share based payment reserve of $880,204. The adjustment required for the half-year ended 31 December 2004 was $235,552 comprised totally of employee benefits expense (included in exploration expenses).

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Independent review report to the members of Leyshon Resources Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, selected explanatory notes and the directors' declaration for the consolidated entity for the half-year ended 31 December 2005 as set out on pages 5 to 23. The consolidated entity comprises both Leyshon Resources Limited (the company) and the entities it controlled at the end of the half-year or from time to time during the half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial 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.

Review Approach

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001 and Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", 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, its changes in equity and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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Statement

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" and the Corporations Regulations 2001.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

AT Richards

AT Richards
Partner
Chartered Accountants
Perth, 16 March 2006

Deloitte.

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The Board of Directors
Leyshon Resources Limited
Level 9 BGC Centre
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16 March 2006

Dear Board Members

Leyshon Resources Limited

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

As lead audit partner for the review of the financial statements of Leyshon Resources Limited for the half-year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

AT Richards
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

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