

Third Quarterly Report 2010



中國基礎資源控股有限公司  
China Primary Resources Holdings Limited

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code : 8117)



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*This report, for which the directors (the “Directors”) of CHINA PRIMARY RESOURCES HOLDINGS LIMITED (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*



### ***HIGHLIGHTS***

Turnover for the nine months ended 30 September 2010 was approximately HK\$91,052,000, representing an increase of approximately 263% from the corresponding period.

Loss attributable to owners of the Company for the same period amounted to approximately HK\$31,472,000 while it was loss of approximately HK\$42,969,000 in the corresponding period.

The Board does not recommend the payment of any interim dividend for the nine months ended 30 September 2010.

## UNAUDITED RESULTS

The board of Directors (the “Board”) of China Primary Resources Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the nine months ended 30 September 2010 together with the comparative figures as follows. The consolidated third quarterly financial statements of the Group have not been audited but have been reviewed by the audit committee of the Company.

### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Turnover	2	20,781	15,442	91,052	25,051
Other income and gain	3	21	60	96	104
Cost of inventories sold		(19,483)	(12,465)	(79,635)	(21,306)
Staff costs, including directors' remuneration		(1,695)	(1,664)	(4,642)	(4,627)
Depreciation		(790)	(650)	(2,270)	(1,713)
Amortisation of mining rights		(2,107)	(2,022)	(6,196)	(6,054)
Amortisation of land use rights		(181)	(174)	(534)	(522)
Other operating expenses		(2,497)	(2,947)	(13,475)	(9,745)
Share of losses of associates, net		-	-	-	(10,282)
Finance costs	4	(6,930)	(6,133)	(20,238)	(18,774)
<b>Loss before income tax</b>	5	<b>(12,881)</b>	<b>(10,553)</b>	<b>(35,842)</b>	<b>(47,868)</b>
Income tax credit	6	818	1,110	2,960	3,326
<b>Loss for the period</b>		<b>(12,063)</b>	<b>(9,443)</b>	<b>(32,882)</b>	<b>(44,542)</b>
Loss attributable to:					
Owners of the Company		(11,582)	(8,987)	(31,472)	(42,969)
Minority interests		(481)	(456)	(1,410)	(1,573)
		<b>(12,063)</b>	<b>(9,443)</b>	<b>(32,882)</b>	<b>(44,542)</b>
<b>LOSS PER SHARE</b>					
<b>ATTRIBUTABLE</b>					
<b>TO OWNERS OF THE</b>					
<b>COMPANY</b>	8				
Basic and diluted		<b>(HK0.94 cents)</b>	<b>(HK0.77 cents)</b>	<b>(HK2.56 cents)</b>	<b>(HK4.09 cents)</b>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Three months ended 30 September 2010		Nine months ended 30 September 2010	
	2009	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period	(12,063)	(9,443)	(32,882)	(44,542)
Other comprehensive income:				
Exchange differences on translation of associates	-	-	-	18,106
Exchange differences on translation of foreign operations	5,534	(466)	11,413	317
Other comprehensive income for the period, net of tax	5,534	(466)	11,413	18,423
Total comprehensive income for the period	<u>(6,529)</u>	<u>(9,909)</u>	<u>(21,469)</u>	<u>(26,119)</u>
Total comprehensive income for the period attributable to:				
Owners of the company	(6,679)	(9,518)	(21,359)	(24,790)
Minority interests	150	(391)	(110)	(1,329)
	<u>(6,529)</u>	<u>(9,909)</u>	<u>(21,469)</u>	<u>(26,119)</u>

## **NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **1. Basis of presentation and principal accounting policies**

The Company was incorporated in the Cayman Islands, as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands on 5 September 2001.

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirement of Chapter 18 of the GEM Listing Rules, Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” and Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The financial statements are prepared under the historical cost convention.

On 31 October 2007, the Company issued to Lehman Brothers Commercial Corporation Asia Limited (in liquidation) (as Bondholder) the Convertible Bonds (as defined below) in the principal amount of HK\$246,250,000 which is due on 31 October 2010. Since July 2009, the Company has been negotiating with the Liquidators (as defined below) on the terms of settlement in relation to the redemption of the Convertible Bonds. On 17 September 2010, the Company, the Bondholder and the Liquidators entered into the Deed of the Settlement (as defined below) to set out the terms for the redemption of the Convertible Bonds.

Pursuant to the Deed of Settlement, the Company shall pay to the Bondholder a sum of HK\$85 million and transfer the Sale Interest (as defined below) to the Bondholder or any third party as directed by the Bondholder, unless the Bondholder exercises its right of refusal to accept the Sale Interest in accordance with the terms of the Deed of Settlement and the deed of undertaking to be entered into among the Bondholder, the Liquidators and the Company in accordance with the terms of the Deed of Settlement, whose form and substance shall be satisfactory to both the Bondholder and the Company. The Sale Interest represents 100% of the issued share capital of Zhong Ping Resources Holdings Limited (“Zhong Ping”) (being the holder of the 70% equity interest in ARIA LLC), or, at the sole and absolute discretion of the Bondholder, all of the assets held directly or indirectly by Zhong Ping.

In the opinion of the Directors, according to the Deed of Settlement, the Group will have the ability to generate funds internally sufficient to meet its future working capital requirements and financial obligations. Accordingly, the Directors consider that it is appropriate to prepare these financial statements on a going concern basis.

The unaudited condensed consolidated financial statements incorporated the financial statements of the Company and its principal subsidiaries for the period ended 30 September 2010. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The accounting policies adopted in the unaudited condensed consolidated results are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

In this reporting period, the Group had applied for the first time, a number of new HKFRSs and HKAS issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2010. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting period as prepared and presented.

Certain comparative amounts have been reclassified to conform with the current period's presentation.

## 2. Turnover

Turnover, which is also revenue, represents the sales value of goods supplied to customers and is analysed as follows:

	Three months		Nine months	
	ended 30 September		ended 30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales of PE/FRP Pipes	<b>6,607</b>	12,881	<b>52,147</b>	19,969
Sales of composite materials	<b>14,174</b>	2,561	<b>38,905</b>	5,082
	<b>20,781</b>	15,442	<b>91,052</b>	25,051

### 3. Other income and gain

	Three months		Nine months	
	ended 30 September		ended 30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Bank interest income	20	56	56	100
Sundry income	1	4	40	4
	<u>21</u>	<u>60</u>	<u>96</u>	<u>104</u>

### 4. Finance costs

	Three months		Nine months	
	ended 30 September		ended 30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest expenses on				
convertible bonds mature				
within five years	4,942	4,942	14,826	14,994
Imputed interest on				
convertible preferred shares	1,191	1,191	3,573	3,573
Interest on short-term loan	797	–	1,839	–
Others	–	–	–	207
	<u>6,930</u>	<u>6,133</u>	<u>20,238</u>	<u>18,774</u>



## 5. Loss before income tax

Loss before income tax is arrived at after charging:

	Three months ended 30 September		Nine months ended 30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Minimum lease payments under operating lease charges in respect of land and buildings	445	526	1,508	1,787
Depreciation ( <i>Note</i> )	2,099	1,142	5,662	3,010
Contribution to retirement benefit scheme	137	17	345	49
Write-off of property, plant and equipment	24	–	2,444	–
	<u>24</u>	<u>–</u>	<u>2,444</u>	<u>–</u>

*Note:* Depreciation expense of approximately HK\$1,309,000 and HK\$3,392,000 for the three months and nine months ended 30 September 2010 respectively (three months and nine months ended 30 September 2009: approximately HK\$492,000 and HK\$1,297,000) has been expensed in cost of goods sold.

## 6. Income tax credit

(a) Taxation in the unaudited condensed consolidated income statement represents:

Three months ended 30 September		Nine months ended 30 September	
2010	2009	2010	2009
HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

Group:

Deferred taxation  
– attributable to the  
origination and  
reversal of  
temporary  
differences, net

<b>818</b>	1,110	<b>2,960</b>	3,326
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Total tax credit for  
the period

<b>818</b>	1,110	<b>2,960</b>	3,326
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(b) No provision has been made for Hong Kong profits tax as the Group has no assessable profit arising from Hong Kong during the three months and nine months ended 30 September 2010 (three months and nine months ended 30 September 2009: Nil). Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

In accordance with various approval documents issued by the State Tax Bureau and the Local Tax Bureau of the PRC, 宜昌富連江複合材料有限公司, a wholly-owned subsidiary of the Company, established as a wholly foreign-owned enterprise in the PRC, is entitled to an exemption from the PRC state and local corporate income tax ("CIT") for the first two profitable financial years of its operation and thereafter a 50% relief from the state CIT of the PRC for the following three financial years (the "Tax holiday"). Upon expiry of the Tax Holiday, the usual PRC CIT rate is 25%. No provision for CIT has been made as the subsidiary sustained a loss during the three months and nine months ended 30 September 2010 and prior years.



## **7. Dividend**

The Board does not recommend the payment of any interim dividend in respect of the nine months ended 30 September 2010 (nine months ended 30 September 2009: Nil).

## **8. Loss per share attributable to owners of the company**

The calculation of basic loss per share is based on the loss for the three months and nine months ended 30 September 2010 attributable to owners of the Company, and the weighted average number of ordinary shares 1,229,603,280 (three months and nine months ended 30 September 2009: 1,167,588,506 and 1,051,093,109 respectively) in issue during the three months and nine months ended 30 September 2010.

No adjustment has been made to the basic loss per share amounts presented for the periods ended three months and nine months ended 30 September 2010 and 30 September 2009 in respect of a dilution as the impact of the convertible bonds, convertible preferred shares, share options and warrants outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

The calculation of diluted loss per share is based on the loss for the three months and nine months ended 30 September 2010 attributable to owners of the Company, adjusted to reflect the interest on the convertible bonds and convertible preferred shares and related income tax effect. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the three months and nine months ended 30 September 2010, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the full redemption or conversion of all dilutive potential ordinary shares into ordinary shares.

The basic and diluted loss per share are calculated as follows:

<b>Three months</b>		<b>Nine months</b>	
<b>ended 30 September</b>		<b>ended 30 September</b>	
<b>2010</b>	2009	<b>2010</b>	2009
<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)

## Loss

Loss for the period  
attributable to the owners  
of the Company used in  
the basic loss per share  
calculation

<b>(11,582)</b>	(8,987)	<b>(31,472)</b>	(42,969)
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<b>Three months</b>		<b>Nine months</b>	
<b>ended 30 September</b>		<b>ended 30 September</b>	
<b>2010</b>	2009	<b>2010</b>	2009
<b>'000</b>	'000	<b>'000</b>	'000

## Number of shares

Weighted average number of  
ordinary shares for the  
purposes of calculating  
basic loss per share

<b>1,229,603</b>	1,167,588	<b>1,229,603</b>	1,051,093
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As the convertible bonds, convertible preferred shares, share options and warrants, where applicable, outstanding during the reporting periods had an anti-dilutive effect on the basic loss per share, the conversion of the above potential dilutive shares was not assumed in the calculation of the diluted loss per share in both reporting periods. Accordingly, the basic and diluted loss per share for the respective reporting periods are the same.

## 9. Unaudited condensed consolidated statement of changes in equity

Equity attributable to owners of the Company											
Share capital	Share premium account	Convertible bonds reserve	Employee compensation reserve	Statutory surplus reserve	Convertible preferred shares		Warrants reserve	Exchange translation reserve	Accumulated losses	Minority interests	Total equity
					shares reserve	reserves					
HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Balance at											
1 January 2009	10,247	295,649	18,985	38,031	5,110	753,639	7,619	168,910	(153,427)	38,341	1,183,104
Total comprehensive income for the nine months ended											
30 September 2009	-	-	-	-	-	-	-	18,179	(42,969)	(1,329)	(26,119)
A subsidiary ceased to commence operation and cancelled											
	-	-	-	-	-	-	-	-	-	(3,377)	(3,377)
Issue of rights shares, less issue expenses											
	5,123	70,077	-	-	-	-	-	-	-	-	75,200
Balance at											
30 September 2009	15,370	365,726	18,985	38,031	5,110	753,639	7,619	187,089	(196,396)	33,635	1,228,808
Equity attributable to owners of the Company											
Share capital	Share premium account	Convertible bonds reserve	Employee compensation reserve	Statutory surplus reserve	Convertible preferred shares		Warrants reserve	Exchange translation reserve	Accumulated losses	Minority interests	Total equity
					shares reserve	reserves					
HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Balance at											
1 January 2010	15,370	365,726	17,922	38,031	5,110	753,639	-	188,018	(1,008,890)	33,257	408,183
Total comprehensive income for the nine months ended											
30 September 2010	-	-	-	-	-	-	-	10,113	(31,472)	(110)	(21,469)
Balance at											
30 September 2010	15,370	365,726	17,922	38,031	5,110	753,639	-	198,131	(1,040,362)	33,147	386,714

## **MANAGEMENT DISCUSSION AND ANALYSIS**

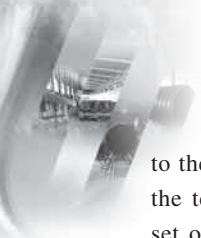
### **Business review and future outlook**

The financial tsunami broke out in the second half of the year 2008 had great impact on the economy of the whole world, including the People's Republic of China (the "PRC") and Hong Kong. The performance and financial position of a lot of business corporations are greatly affected. The Group, however, is still maintaining a competitive position in the market with effective cost control and cash management. Turnover for the first nine months of 2010 was improved significantly due to the recovering economic condition.

The business segment of the Polyethylene Pipes ("PE Pipes") and Fibre Glass Reinforced Plastic Pipes ("FRP Pipes") was performing well in the first nine months of 2010 and was the main business of the Group in 2010. This business segment has been the core business of the Group for many years. The PE Pipes and FRP Pipes are products employed for constructions and city development in the PRC. Our major customers are mainly government entities of different provinces and cities in the PRC, or their suppliers. Given the rapid and continuous development of the PRC market, the Directors believe that the demands for our products are both sustainable and look set to increase.

### **The Proposed Disposal**

On 9 April 2010 (after trading hours), Yichang Shoukong Industries Co., Limited (宜昌首控實業有限公司) ("Yichang Shoukong"), a wholly-owned subsidiary of the Company, and 首鋼控股有限責任公司 (transliterated as Shougang Holdings Limited Liability Company) ("Shougang") entered into the agreement (the "Agreement") pursuant to which Yichang Shoukong has conditionally agreed to sell, and Shougang has conditionally agreed to purchase, the 12.21% equity interest in the registered paid up capital of 新首鋼資源控股有限公司 (transliterated as Xin Shougang Zi Yuan Holdings Limited) ("Xin Shougang") at an aggregate consideration of HK\$314.8 million (the "Disposal"). The consideration shall be satisfied by Shougang as to HK\$25.34 million by cash (or RMB22.28 million as agreed between the parties to the Agreement) and as to HK\$289.46 million by way of procuring Great Ocean Real Estate Limited to transfer 2,802,235,294 preferred shares (the "Preferred Shares") (the non-voting redeemable convertible preferred share(s) of HK\$0.00125 each in the existing share capital of the Company carrying rights to convert into conversion share(s))




to the Company for repurchase (“Share Repurchase”) and cancellation subject to the terms and upon fulfillment of the conditions of the Agreement. Details are set out in the announcement dated 22 April 2010 and the circular dated 8 June 2010 of the Company.

### **Proposed decrease in authorised share capital**

As at the date of this report, the authorised share capital of the Company is HK\$125,000,000 divided into 9,600,000,000 ordinary shares of HK\$0.0125 each in the existing share capital of the Company (the “Shares”) and 4,000,000,000 Preferred Shares of HK\$0.00125 each. As a result of the Share Repurchase, all the Preferred Shares in issue will be cancelled. In order to extinguish the Preferred Share class from the authorised share capital of the Company, the Board proposed to diminish the authorised share capital of the Company from HK\$125,000,000 to HK\$120,000,000 by the cancellation of 4,000,000,000 Preferred Shares of HK\$0.00125 each in the authorised share capital of the Company (the “Authorised Share Capital Decrease”). As a result, the authorised share capital of the Company will become HK\$120,000,000 divided into 9,600,000,000 Shares of HK\$0.0125 each. The Authorised Share Capital Decrease was passed as an ordinary resolution by the shareholders of the Company (“Shareholders”) by way of poll at the extraordinary general meeting held on 28 June 2010. Completion shall be conditional upon the fulfillment or waiver (as the case may be) of the conditions precedent to the Agreement or such other date as the parties to the Agreement may agree in writing. Details are set out in the announcement dated 22 April 2010 and the circular dated 8 June 2010 of the Company.

### **Deed of Settlement and the disposal**

On 17 September 2010, the Company, Lehman Brothers Commercial Corporation Asia Limited (in liquidation) (the “Lehman Brothers”) (as Bondholder) and the joint and several liquidators of Lehman Brothers appointed by the order of the Court of First Instance of Hong Kong (the “Liquidators”) signed the deed of settlement (the “Deed of Settlement”) for the redemption of the 4.5% convertible bonds of the Company in the principal amount of HK\$246,250,000 issued by the Company to Lehman Brothers pursuant to the subscription agreement dated 12 June 2007 (the “Convertible Bonds”).




Pursuant to the Deed of Settlement, the Company shall pay to the Bondholder a sum of HK\$85 million and transfer the Sale Interest (as defined below) to the Bondholder or any third party as directed by the Bondholder.

The Sale Interest represents 100% of the issued share capital of Zhong Ping Resources Holdings Limited (“Zhong Ping”) (being the holder of the 70% equity interest in ARIA LLC (“ARIA”), a company incorporated in Mongolia with limited liability), or, at the sole and absolute discretion of the Bondholder, all of the assets held directly or indirectly by Zhong Ping. Zhong Ping, through ARIA, holds the majority interest of the mining right in respect of the green field exploration project namely the Mungun-Undur Polymetallic Project (the “Project”) located at Mungun-Undur, Khentii Province, Mongolia. The Project has prospects for silver, lead, zinc and tin mineralization. Details are set out in the announcement dated 27 September 2010 and the circular dated 11 October 2010 of the Company.

### **The Subscription**

On 17 September 2010, the Company and Mr. Yu Hongzhi entered into the subscription agreement (the “Subscription Agreement”) pursuant to which the Company conditionally agreed to issue and Mr. Yu Hongzhi conditionally agreed to subscribe for a total of 570,000,000 subscription shares (the “Subscription Share(s)”) at HK\$0.08 per Subscription Share (the “Issue Price”) under the subscription (the “Subscription”). The Subscription Shares represent approximately 46.4% of the existing issued share capital of the Company as at the date of this report; approximately 31.7% of the issued share capital as enlarged by the issue of the Subscription Shares and approximately 23.6% of the issued share capital as enlarged by the issue of the Subscription Shares and 614,801,640 new Shares (the “Offer Shares”) proposed to be offered to the Shareholders whose names appear on the register of members of the Company on 27 October 2010 (the “Record Date”) (the “Qualifying Shareholders”) on the terms set out in the underwriting agreement (the “Underwriting Agreement”) dated 17 September 2010 entered into between the Company and Mr. Yu Hongzhi, the underwriter, and in the prospectus dated 28 October 2010. The estimated net proceeds of the Subscription will be approximately HK\$45.6 million. The Subscription and the issue of one Offer Share for every two





Shares held on the Record Date at a price of HK\$0.08 per Offer Share (the “Open Offer”) are inter-conditional upon each other. Details are set out in the announcement dated 27 September 2010 and the circular dated 11 October 2010 of the Company.

### **The Open Offer**

On 17 September 2010, the Company proposes to raise approximately HK\$49.2 million before expenses by way of the Open Offer of 614,801,640 Offer Shares at a price of HK\$0.08 per Offer Share.

The Open Offer is only available to the Qualifying Shareholders and such Qualifying Shareholders are not entitled to apply for any Offer Shares which are in excess of their assured entitlements. The Open Offer is not available to excluded Shareholders (those Overseas Shareholders whom the Directors, after making enquiries regarding the legal restrictions under the laws of the relevant places and the requirements of the relevant overseas regulatory bodies or stock exchanges in those places, consider it necessary or expedient to exclude them from the Open Offer). Based on the number of 614,801,640 Offer Shares, the estimated net proceeds of the Open Offer will be approximately HK\$44.9 million. Mr. Yu Hongzhi, the underwriter, will be required to subscribe for the untaken Offer Shares.

The Company intends to apply the majority of the net proceeds from the Subscription and the Open Offer for the payment under the Deed of Settlement and retain the balance as general working capital of the Group for future operation and development. Details are set out in the announcement dated 27 September 2010 and the circular dated 11 October 2010 of the Company.

Save as mentioned above, during the period under review, the Group is principally engaged in manufacture and sale of PE Pipes and FRP Pipes, sale of composite materials, and mining businesses through its interest in associates and subsidiaries, and operates primarily in the markets of the PRC and the independent sovereign state of Mongolia.

## **Financial review**

Turnover was approximately HK\$91,052,000 for the period under review, which represented an increase of 263% when compared with approximately HK\$25,051,000 in the corresponding period. The increase in sale was mainly due to strong rebound of the global economy since 2009. The unaudited loss before income tax for the period under review was approximately HK\$35,842,000 while the unaudited loss before income tax for corresponding period was approximately HK\$47,868,000. The loss attributable to owners of the Company was approximately HK\$31,472,000 (nine months ended 30 September 2009: loss of approximately HK\$42,969,000). The improvement in loss for the period under review was mainly attributable to the significant increase in turnover during the period under review. In the current economic environment, the Board will continue to adopt the stringent cost control and maintain a low and effective overheads structure and prudently utilize the corporate resources to create wealth for the Shareholders.

In the opinion of the Directors, according to the Deed of Settlement (as mentioned in the section headed “Deed of Settlement and the disposal” above), the Group will have the ability to generate funds internally sufficient to meet its future working capital requirements and financial obligations. Accordingly, the Directors consider that it is appropriate to prepare these financial statements on a going concern basis.

## **Liquidity and financial resources**

With the funds raised previously and the internal resources of the Company and according to the Deed of Settlement, as at 30 September 2010, the Directors anticipate that the Group has adequate financial resources to meet its ongoing operations and future development.

## ***DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION***

As at 30 September 2010, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

The approximate percentage of interest set out below is based on 1,229,603,280 ordinary shares in issue as at 30 September 2010, but not on the total number of issued shares upon full conversion or exercise of (i) the convertible bonds (the "Convertible Bonds") issued to Lehman Brothers (in liquidation) pursuant to the conditional subscription agreement dated 12 June 2007, (ii) the preferred shares issued to Great Ocean Real Estate Limited ("GORE") (the "Preferred Shares") and (iii) the 73,601,600 (adjusted) outstanding share options granted under the share option scheme adopted by the Company on 28 November 2001.

- (i) *Long position in the ordinary shares of HK\$0.0125 each in the Company as at 30 September 2010:*

<b>Name of Director</b>	<b>Number of ordinary shares held</b>		<b>Approximate percentage of interests</b>
	<b>Type of interests</b>	<b>Number of ordinary shares</b>	
Ms. Ma Zheng	Beneficial	8,100,000	0.66%
	<i>(Note)</i>		


*Note:* In addition to 8,100,000 Shares held in her own name, Ms. Ma Zheng is holding 12.5% of the equity interest of Future Advance Holdings Limited ("Future Advance") and Future Advance beneficially owns 23.39% of the equity interest of the Company. For information purpose, Ms. Ma Zheng is an executive director of the Company and the sole director of Future Advance.

(ii) Long position in the underlying shares or debentures of the Company as at 30 September 2010:

Name of Directors	Type of interests	Description of securities	Number of underlying shares	Approximate percentage of interests
Ms. Ma Zheng	Beneficial	Share Option (Note 1)	2,512,000	0.20%
Mr. Liu Weichang	Beneficial	Share Option (Note 2)	376,800	0.03%
Mr. Wan Tze Fan Terence	Beneficial	Share Option (Note 3)	376,800	0.03%

Notes:

1. On 8 January 2008, Ms. Ma Zheng, the sole director of Future Advance and an executive Director, had been granted 20,000,000 share options under the existing share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules which carry rights to subscribe for 20,000,000 new Shares at the then exercise price of HK\$0.22 per new Shares. After the completion of the rights issue and the share consolidation, the right to subscribe for new Shares and the subscription price of the share options have been adjusted to 2,512,000 and HK\$1.752 per new Share respectively on 20 August 2009.
2. On 8 January 2008, Mr. Liu Weichang, an independent non-executive Director, had also been granted 3,000,000 share options under the existing share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules which carry rights to subscribe for 3,000,000 new Shares at the then exercise price of HK\$0.22 per new Shares. After the completion of the rights issue and the share consolidation, the right to subscribe for new Shares and the subscription price of the share options have been adjusted to 376,800 and HK\$1.752 per new Share respectively on 20 August 2009.


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3. On 8 January 2008, Mr. Wan Tze Fan Terence, an independent non-executive Director, had also been granted 3,000,000 share options under the existing share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules which carry rights to subscribe for 3,000,000 new Shares at the then exercise price of HK\$0.22 per new Shares. After the completion of the rights issue and the share consolidation, the right to subscribe for new Shares and the subscription price of the share options have been adjusted to 376,800 and HK\$1.752 per new Share respectively on 20 August 2009.

Save as disclosed above, as at 30 September 2010, none of the directors and chief executive of the Company had any other interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations, within the meaning of Part XV of the SFO required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### ***SHARE OPTION***

On 17 March 2004, the Company forfeited all the outstanding share options granted from a Pre-IPO share option scheme (the “Pre-Scheme”) adopted by the Company on 28 November 2001, and that all outstanding share options granted from the Pre-Scheme were cancelled and extinguished. Further details are set out in the announcement dated 17 March 2004. As at 30 September 2010, there were no share options outstanding under the Pre-Scheme.

On the same date as the adoption of the aforesaid Pre-Scheme, a further share option scheme (the “Post-Scheme”) was approved by the Company. The Post-Scheme is valid and effective for a period of ten years commencing on the date on which it was adopted. The purpose of the Post-Scheme is to provide incentives and rewards to eligible participants who would contribute to the success of the Group’s operations. Under the terms of the Post-Scheme, the Board may, at its discretion, grant options to any full-time employee and any director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors. The total number of shares which may fall to be issued upon exercise of all of the outstanding options granted and yet to be exercised under the Post-Scheme and other schemes



(including the Pre-Scheme) of the Company must not exceed 30% of the shares in issue from time to time. The Post-Scheme will remain in force for a period of ten years commencing the date on which the scheme becomes unconditional.

The Post-Scheme was amended and adopted by the shareholders at the annual general meeting of the Company held on 16 April 2003. The amendment involved the extension of the definition of eligible person in the Post-Scheme to include any suppliers, consultants, agents, advisors and distributors who, in the sole discretion of the Board, have contributed or may contribute to the Group.


As at 30 September 2010, the Company had granted share options under the Post-Scheme to subscribe for 857,000,000 shares, of which 176,000,000 options were exercised, no options were cancelled, 95,000,000 options were lapsed and 586,000,000 options (which was adjusted to 73,601,600 options upon the Rights Issue and Share Consolidation) remain outstanding and not yet exercised. The total number of shares in respect of which options may be granted under the Post-Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of approval of the Post-Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

The subscription price will be determined by the Board and will be the highest of (i) the quoted closing price of the Company's shares on the Commencement Date (as defined in the Post-Scheme), which must be a trading day, (ii) the average of the quoted closing price of the Company's shares for the five trading days immediately preceding the Commencement Date (as defined in the Post-Scheme), and (iii) the nominal value of the Company's share. Any options granted under the Post-Scheme shall end in any event not later than ten years from the Commencement Date (as defined in the Post-Scheme). A nominal value of HK\$1.00 is payable on acceptance of each grant of options.

Details of the share options granted by the Company pursuant to the Post-Scheme and the options outstanding as at 30 September 2010 were as follows:

Grantees	Date granted	Balance as at 1 January 2010	Granted during the period	Exercised during the period	Lapsed during the period	Balance as at 30 September 2010	Period during which the options are exercisable	Exercise price per share
Ms. Ma Zheng (Director)	8 January 2008	2,512,000	-	-	-	2,512,000	8 July 2008 to 27 November 2011	HK\$1.752
Mr. Wan Tze Fan Terence (Director)	8 January 2008	376,800	-	-	-	376,800	8 July 2008 to 27 November 2011	HK\$1.752
Mr. Liu Weichang (Director)	8 January 2008	376,800	-	-	-	376,800	8 July 2008 to 27 November 2011	HK\$1.752
Employees	8 January 2008	70,336,000	-	-	-	70,336,000	8 July 2008 to 27 November 2011	HK\$1.752
		<u>73,601,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,601,600</u>		

No share options were granted by the Company and no share options were exercised or lapsed during the period under review.



***SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY***

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 September 2010, the Company had been notified that the following substantial shareholders having the following interests and short positions, being 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, in the Company. These interests are shown in addition to those disclosed above in respect of the directors and chief executives:

The approximate percentage of interest set out below is based on 1,229,603,280 ordinary shares in issue as at 30 September 2010, but not on the total number of issued shares upon full conversion or exercise of (i) the Convertible Bonds issued to Lehman Brothers (in liquidation) pursuant to the conditional subscription agreement dated 12 June 2007, (ii) the Preferred Shares issued to GORE and (iii) the 73,601,600 (adjusted) outstanding share options granted under the share option scheme adopted by the Company on 28 November 2001.



(i) Long position in the ordinary shares of HK\$0.0125 each in the Company as at 30 September 2010:

Name of shareholders	Type of interests	Number of shares held	Approximate percentage of interests
Future Advance Holdings Limited	Beneficial	287,619,446	23.39%
China Zong Heng Holdings Limited	Corporate (Note 1)	287,619,446	23.39%
Mr. Yu Hongzhi	Corporate (Note 1)	287,619,446	23.39%
	Beneficial (Note 3)	1,196,201,640	97.28%
	Subtotal:	1,483,821,086	120.67%
APAC Resources Limited	Corporate (Note 2)	129,436,878	10.53%
Super Grand Investments Limited ("Super Grand")	Beneficial	129,436,878	10.53%

*Notes:*

- These shares are held by Future Advance. Future Advance is a substantial shareholder which is beneficially owned as to 37.5% by China Zong Heng Holdings Limited (which in turn is 100% beneficially owned by Mr. Yu Hongzhi), 12.5% by Ms. Ma Zheng who is the sole director of Future Advance, 27% by Zhong Nan Mining Group Limited (which in turn is 100% beneficially owned by Mr. Zhang Lei), 13% by Mr. Wu Yong Jin and the remaining 10% by Ms. Ma Yi.
- These shares are held by Super Grand and Super Grand is a wholly-owned subsidiary of APAC Resources Limited, the issued shares of which are listed on the main board of the Stock Exchange.


3. Mr. Yu Hongzhi is holding 11,400,000 Shares in his personal name. Under the terms of the Subscription Agreement and the Underwriting Agreement, he has personally committed to acquire 570,000,000 Shares and a maximum of 614,801,640 Shares respectively. Hence, he is taken to be personally interested in 1,196,201,640 Shares under the SFO.

(ii) *Long position in the underlying shares or debentures of the Company as at 30 September 2010:*

<b>Name</b>	<b>Type of interests</b>	<b>Description of derivatives</b>	<b>Number of underlying shares</b>	<b>Approximate percentage of interests</b>
Lehman Brothers (in liquidation)	Beneficial	Convertible Bonds <i>(Notes 1 &amp; 3)</i>	184,733,481 <i>(For illustration purpose only)</i>	15.02%
Great Ocean Real Estate Limited	Beneficial	Preferred Shares <i>(Notes 2 &amp; 3)</i>	359,396,454	29.23%
Mr. Zhang Zheng (張征先生)	Corporate	Preferred Shares <i>(Notes 2 &amp; 3)</i>	359,396,454	29.23%

*Notes:*

1. The total number of shares to which Lehman Brothers (in liquidation) are entitled under the Convertible Bonds has taken into account the existing issued share capital of the Company and all outstanding securities which may be convertible into or carry rights to subscribe for new Shares. Pursuant to the Deed of Settlement dated 17 September 2010, the Bondholder and the Company, among others, agreed that the date of redemption of the outstanding sum of the Convertible Bonds will be extended to a date falling not later than 31 October 2011. For illustration purpose only, the number of conversion Shares to be issued from conversion of the Convertible Bonds will be 184,733,481, which will vary from time to time in order to represent 10% of the issued share capital of the Company as enlarged by the full conversion of all the convertible securities.

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2. These underlying shares are held by GORE, a company incorporated in the British Virgin Islands with limited liability. Mr. Zhang Zheng (張征) is the sole beneficial owner and the sole director of GORE. The Preferred Shares issued carry conversion right to convert into ordinary shares of the Company at the initial conversion rate of 1:1 (adjusted to 1:1.2825 on 16 July 2009 and further adjusted to 1:0.1282 on 20 August 2009).
  3. It is on 26 October 2007 and 31 October 2007, with all the conditions being fulfilled, the creation and issuance of the Preferred Shares and Convertible Bonds were completed.

Save as disclosed above, as at 30 September 2010, the directors are not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who had an interest, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or any other substantial shareholders whose interests or short position were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### ***DIRECTORS' RIGHTS TO ACQUIRE SHARES***

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## ***COMPETITION AND CONFLICT OF INTERESTS***

Mr. Yu Hongzhi, the director of the Company's subsidiary Yichang Fuliangjiang Joint Composite Limited, is the director and legal representative of 宜昌弘訊管業有限公司 (transliterated as Yichang HongXun Conduit and Calling Company Limited) ("Yichang HongXun"), which is a company incorporated in the PRC and principally engaged in selling and producing PE Pipes in the PRC. Mr. Yu Hongzhi was not a substantial shareholder of Yichang HongXun during the period under review. Save as disclosed above, as at 30 September 2010, none of the Directors, significant shareholders, substantial shareholders and any of their respective associates has engaged in any business that competes or may compete directly or indirectly, with the business of the Group, or has or may have any other conflicts of interest with the Group.

## ***AUDIT COMMITTEE***

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The audit committee comprises three members, Mr. Wan Tze Fan Terence ("Mr. Wan"), Mr. Liu Weichang ("Mr. Liu") and Mr. Chung Chin Keung ("Mr. Chung") who are the independent non-executive Directors of the Company. The primary duties of the audit committee are to review the Company's annual report and financial statements, quarterly reports and half-yearly report and to provide advice and comment thereon to the Board. The audit committee will also be responsible for reviewing and supervising the financial reporting and internal control procedures of the Group. The audit committee has reviewed the Group's unaudited results for the three months and nine months ended 30 September 2010 and has provided advice and comments thereon.

## ***REMUNERATION COMMITTEE***

The remuneration committee of the Company was established on 1 June 2005. The function of the remuneration committee is to consider and recommend to the Board on the Group's remuneration policy and structure for all remuneration of executive directors and senior management and to review and determine the remuneration packages of the executive directors and senior management. The remuneration committee comprises three members, Mr. Wan, Mr. Liu and Mr. Chung who are the independent non-executive Directors of the Company.



***PURCHASE, SALE OR REDEMPTION OF SECURITIES***

The Company had not redeemed any of its shares during the period ended 30 September 2010. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed shares during the period ended 30 September 2010.

By Order of the Board  
**China Primary Resources Holdings Limited**  
**Ma Zheng**  
*Chairman*

Hong Kong, 9 November 2010

*As at the date of this report, the Board comprises Ms. MA Zheng and Mr. WONG Pui Yiu who are the executive Directors, and Mr. WAN Tze Fan Terence, Mr. LIU Weichang and Mr. CHUNG Chin Keung who are the independent non-executive Directors.*