



# 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)*



Third Quarterly Report 2009

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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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: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

### ***HIGHLIGHTS***

Turnover for the nine months ended 30 September 2009 was approximately HK\$25,051,000, representing a decrease of approximately 62% from the corresponding period.

Loss attributable to shareholders for the same period amounted to approximately HK\$42,969,000 while it was loss of approximately HK\$6,217,000 (restated) in the corresponding period.

The Board does not recommend the payment of any interim dividend for the nine months ended 30 September 2009.

## 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 2009 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	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000 (restated)
Turnover	3	15,442	15,049	25,051	65,458
Cost of inventories sold		(12,465)	(14,756)	(21,306)	(63,594)
Gross profit		2,977	293	3,745	1,864
Other income and gain	4	60	5,850	104	7,285
Administrative and other operating expenses		(7,457)	(8,092)	(22,661)	(67,206)
Share of losses, net of associates		-	(16,458)	(10,282)	(49,048)
Excess of the Group's share of the net fair value of the interests in subsidiaries acquired over the cost of acquisition		-	-	-	118,110
Finance costs	5	(6,133)	(6,237)	(18,774)	(18,711)
<b>Loss before income tax</b>	6	<b>(10,553)</b>	<b>(24,644)</b>	<b>(47,868)</b>	<b>(7,706)</b>
Income tax credit/(charge)	7	1,110	(302)	3,326	(302)
<b>Loss for the period</b>		<b>(9,443)</b>	<b>(24,946)</b>	<b>(44,542)</b>	<b>(8,008)</b>
Attributable to:					
Equity holders of the Company		(8,987)	(23,931)	(42,969)	(6,217)
Minority interests		(456)	(1,015)	(1,573)	(1,791)
		<b>(9,443)</b>	<b>(24,946)</b>	<b>(44,542)</b>	<b>(8,008)</b>
<b>Dividend</b>	8	-	-	-	-
			(restated)		(restated)
<b>Loss per share</b>	9				
Basic		<b>(HK0.77 cents)</b>	<b>(HK2.41 cents)</b>	<b>(HK4.09 cents)</b>	<b>(HK0.65 cents)</b>
Diluted		N/A	N/A	N/A	N/A

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF  
COMPREHENSIVE INCOME**

	Three months		Nine months	
	ended 30 September		ended 30 September	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(restated)
Loss for the period	(9,443)	(24,946)	(44,542)	(8,008)
Other comprehensive income/(loss):				
Exchange difference arising on translation of foreign operations	(466)	(977)	317	18,819
Exchange difference arising on Share of associates	-	(3,880)	18,106	143,778
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total comprehensive income/(loss) for the period	<b><u>(9,909)</u></b>	<b><u>(29,803)</u></b>	<b><u>(26,119)</u></b>	<b><u>154,589</u></b>
Attributable to:				
Equity holders of the Company	(9,518)	(28,220)	(24,790)	156,178
Minority interests	(391)	(1,583)	(1,329)	(1,589)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<b><u>(9,909)</u></b>	<b><u>(29,803)</u></b>	<b><u>(26,119)</u></b>	<b><u>154,589</u></b>

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

The consolidated financial statements incorporated the financial statements of the Company and its principal subsidiaries for the period ended 30 September 2009. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The accounting policies adopted in the condensed consolidated results are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2008.

In this reporting period, the Group had applied for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”) and HKAS issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2009. 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.

**2. Restatement of certain comparative financial information for the nine months ended 30 September 2008**

On 23 April 2008, the Group acquired 100% of the issued share capital of Zhong Ping Resources Holdings Limited (“Zhong Ping”) for a consideration of HK\$148,381,000. This transaction has been accounted for by the acquisition method of accounting. Zhong Ping and its 70%-owned subsidiary, ARIA LLC, engage in mining related business in Mongolia. The calculation of the Group’s share of the net fair value of the interests in subsidiaries acquired over the cost of acquisition in last year was confirmed during the 2008 year end audit as approximately HK\$118,110,000 instead of the amount of approximately HK\$38,128,000 disclosed in the 2008 third quarterly report.

To comply with the HKFRS 3, in the preparation and presentation of comparative financial information for the Prior Periods Ended in this third quarterly report, the Group was required to recognize and record the abovementioned consequential adjustments and the Excess on the Completion Date for the Acquisition. As a result, the Prior Periods Ended financial information had been adjusted and restated to account for the consequential financial effects.

**3. Turnover**

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

	<b>Three months</b>		<b>Nine months</b>	
	<b>ended 30 September</b>		<b>ended 30 September</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
Sales of composite materials	<b>2,561</b>	12,183	<b>5,082</b>	51,046
Sales of PE/FRP Pipes	<b>12,881</b>	2,866	<b>19,969</b>	14,412
	<b>15,442</b>	15,049	<b>25,051</b>	65,458

#### 4. Other income and gain

	Three months		Nine months	
	ended 30 September		ended 30 September	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Bank interest income	56	674	100	2,104
Sundry income	4	5,176	4	5,181
	<u>60</u>	<u>5,850</u>	<u>104</u>	<u>7,285</u>

#### 5. Finance costs

	Three months		Nine months	
	ended 30 September		ended 30 September	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest expenses on convertible bonds maturing within five years	4,942	5,046	14,994	15,138
Imputed interest on convertible preferred shares	1,191	1,191	3,573	3,573
Others	–	–	207	–
	<u>6,133</u>	<u>6,237</u>	<u>18,774</u>	<u>18,711</u>

## 6. Loss before income tax

Loss before income tax is arrived at after charging:

	Three months		Nine months	
	ended 30 September		ended 30 September	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating lease charges				
on land and buildings	526	633	1,787	1,872
Depreciation ( <i>Note 1</i> )	1,142	748	3,010	2,243
Amortisation of				
mining right	2,022	3,027	6,054	5,045
Amortisation of land				
use rights	174	173	522	522
Staff costs, including				
directors' emoluments	1,664	1,235	4,627	48,391
Contribution to retirement				
benefit scheme ( <i>Note 2</i> )	17	13	49	48
	<u>17</u>	<u>13</u>	<u>49</u>	<u>48</u>

### Notes:

1. Depreciation expense of approximately HK\$492,000 and HK\$1,297,000 for the three months and nine months ended 30 September 2009 respectively (three months and nine months ended 30 September 2008: HK\$304,000 and HK\$916,000) has been expensed in cost of goods sold.
2. Contribution to retirement benefit scheme for the period is included in "staff costs" above.

## 7. Income tax credit/(charge)

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

	Three months ended 30 September		Nine months ended 30 September	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Group:				
Income tax	-	(302)	-	(302)
Deferred taxation				
- attributable to the origination and reversal of temporary differences, net	<b>1,110</b>	-	<b>3,326</b>	-
	<u>1,110</u>	<u>(302)</u>	<u>3,326</u>	<u>(302)</u>
Total tax credit/(charge) for the period	<b>1,110</b>	(302)	<b>3,326</b>	(302)

(b) No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been provided as the Group did not generate any assessable profits in those jurisdictions during the three months and nine months ended 30 September 2009 (three months and nine months ended 30 September 2008: Nil).

No profits tax has been provided as the subsidiaries in the People's Republic of China ("the PRC") were either entitled to an exemption from the PRC state and local corporate income tax or did not generate any assessable profits in the PRC during the three months and nine months ended 30 September 2009 (three months and nine months ended 30 September 2008: HK\$302,000 and HK\$302,000, respectively).

## 8. Dividend

The Board does not recommend the payment of any interim dividend in respect of the nine months ended 30 September 2009 (nine months ended 30 September 2008: Nil).

## 9. Loss per share

The calculation of basic loss per share is based on the loss for the three months and nine months ended 30 September 2009 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the three months and nine months ended 30 September 2009.

The weighted average number of ordinary shares in issue for the purpose of the calculation of the basic and diluted loss per share for the three months and nine months ended 30 September 2008 are restated to reflect the effect of the Rights Issue and Share Consolidation during the current period.

The calculation of diluted loss per share is based on the loss for the three months and nine months ended 30 September 2009 attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible bonds and convertible preferred shares. 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 2009, 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 deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of the basic loss per share are based on the following data:

<b>Three months</b>		<b>Nine months</b>	
<b>ended 30 September</b>		<b>ended 30 September</b>	
<b>2009</b>	2008	<b>2009</b>	2008
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
			(restated)

### Loss

Loss for the period

attributable to the equity  
holders of the Company  
for calculation of basic  
loss per share

<b>(8,987)</b>	(23,931)	<b>(42,969)</b>	(6,217)
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Three months ended 30 September		Nine months ended 30 September	
2009	2008	2009	2008
'000	'000	'000	'000
	(restated)		(restated)

### Number of shares

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

<b>1,167,588</b>	<b>991,879</b>	<b>1,051,093</b>	<b>955,851</b>
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Diluted loss per share for the three months and nine months ended 30 September 2009 and 30 September 2008 have not been disclosed as the warrants, share options, convertible bonds and preferred convertible shares outstanding during the period had an anti-dilutive effect on the basic loss per share for the periods.

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

	Equity attributable to equity holders of the Company										
	Share capital	Share premium	Convertible bonds reserve	Employee compensation reserve	Statutory reserve	Convertible preferred shares reserve	Warrants reserve	Exchange translation reserve	(Accumulated) losses/retained profits	Minority interests	Total equity
	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 2008	9,344	188,251	18,985	-	5,110	753,639	7,619	12,954	1,084,976	3,703	2,084,581
Loss for the period	-	-	-	-	-	-	-	-	(6,217)	(1,791)	(8,008)
Other comprehensive income for the period	-	-	-	-	-	-	-	162,395	-	202	162,597
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	162,395	(6,217)	(1,589)	154,589
Acquisition of equity interest of subsidiaries	-	-	-	-	-	-	-	-	-	87,878	87,878
Issue of shares on acquisition of subsidiaries	903	107,398	-	-	-	-	-	-	-	-	108,301
Recognition of equity – settled share-based compensation	-	-	-	44,197	-	-	-	-	-	-	44,197
Balance at 30 September 2008	<u>10,247</u>	<u>295,649</u>	<u>18,985</u>	<u>44,197</u>	<u>5,110</u>	<u>753,639</u>	<u>7,619</u>	<u>175,349</u>	<u>1,078,759</u>	<u>89,992</u>	<u>2,479,546</u>

Equity attributable to equity holders of the Company

	Share capital	Share premium	Convertible bonds reserve	Employee compensation reserve	Statutory surplus reserve	Convertible preferred		Exchange translation (Accumulated losses)		Minority interests	Total equity
						shares	Warrants	reserve	reserve		
	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
Loss for the period	-	-	-	-	-	-	-	-	(42,969)	(1,573)	(44,542)
Other comprehensive income for the period	-	-	-	-	-	-	-	18,179	-	244	18,423
Total comprehensive income/ (loss) for the period	-	-	-	-	-	-	-	18,179	(42,969)	(1,329)	(26,119)
Rights issue of ordinary share	5,123	76,850	-	-	-	-	-	-	-	-	81,973
Professional fee of rights issue net off	-	(6,773)	-	-	-	-	-	-	-	-	(6,773)
A subsidiary ceased to commence operation and cancelled	-	-	-	-	-	-	-	-	-	(3,377)	(3,377)
Balance at 30 September 2009	<u>15,370</u>	<u>365,726</u>	<u>18,985</u>	<u>38,031</u>	<u>5,110</u>	<u>753,639</u>	<u>7,619</u>	<u>187,089</u>	<u>(196,396)</u>	<u>33,635</u>	<u>1,228,808</u>

## **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. As expected, turnover for the first nine months of 2009 was reduced significantly due to the unfavoured economic condition. Other than that, the performance of the Group for the nine months period ended 30 September 2009 was not seriously affected and is expected to be improved when the economy recover.

The business segment of the Polyethylene Pipes ("PE Pipes") and Fibre Glass Reinforced Plastic Pipes ("FRP Pipes") was performing well in 2008 and would remain the main business of the Group in 2009. Such business is not a new business segment and has been the core business of the Group for many years. The PE Pipes and FRP Pipes are products employed for constructions and city developments in the PRC. Our major customers are mainly government entities of different provinces and cities in the PRC. Given the fast and continuous development of the PRC, the Directors believe that the demands for our products are sustainable.

During the period under review, the Group's shareholding in Xin Shougang Zi Yuan Holdings Limited ("Xin Shougang"), previously an associated company of the Group, reduced from 22.28% to 12.21%. The reduction was mainly due to the injection of additional share capital into Xin Shougang by the controlling shareholder of Xin Shougang. Such investment is now classified as available-for-sale financial asset.

Save as mentioned above, during the period under review, the Group continued to engage in (i) manufacture and sale of PE Pipes and FRP Pipes and sale of composite materials; and (ii) mining businesses operates primarily in the markets of the independent sovereign state of Mongolia and the PRC through its investment in Xin Shougang.

The Group will focus on the development and integration of the manufacturing and mining businesses. The manufacturing business is expected to improve its performance when the economy recover. However, the financial tsunami broke out last year has already affected the progress to commence the mining business. The management will carefully monitor the mining business in the benefit of the Company.

### **Financial review**

Turnover was approximately HK\$25,051,000 for the period under review, which represented a decrease of 62% when compared with approximately HK\$65,458,000 in the corresponding period. The decrease in sale was mainly due to the decrease in sale of composite materials which contributed for over 78% of total turnover in the same period in 2008. Such decrease was mainly due to unfavoured economic condition and the Group was shifting its resources to manufacturing and sale of PE Pipes and FRP Pipes. The unaudited loss before income tax for the period under review was approximately HK\$47,868,000 while the unaudited loss before income tax for corresponding period was approximately HK\$7,706,000 (restated). The loss attributable to equity holders of the Company was approximately HK\$42,969,000 (nine months ended 30 September 2008: loss of approximately HK\$6,217,000 (restated)). The loss for the period under review was mainly attributable to (i) the share of the loss of associated company of approximately HK\$10,282,000; and (ii) relatively low turnover in the reporting period. 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.

### **Rights Issue**

The issue by way of rights of 4,098,677,600 rights shares (the “Rights Share(s)”) in the proportion of one Rights Share for every two shares at a price of HK\$0.02 per Rights Share (the “Rights Issue”) was duly completed on 7 August 2009. Total net proceeds of approximately HK\$74 million was received and the Company has used part of the net proceeds of not less than HK\$40 million to facilitate future development and expansion of the foregoing PE Pipes and FRP Pipes production business in the PRC. Details of the Rights Issue are set out in the announcement and the prospectus of the Company dated 24 June 2009 and 15 July 2009 respectively.

## **Share Consolidation**

The consolidation of every ten shares of HK\$0.00125 each in the issued and unissued share capital of the Company (the “Consolidated Shares”) into one consolidated share of HK\$0.0125 in the issued and unissued share capital of the Company (the “Share Consolidation”) was duly passed by the shareholders of the Company by way of poll at the extraordinary general meeting held on 20 August 2009 and was come into effect on 21 August 2009.

The authorised ordinary share capital of the Company remain at HK\$120,000,000 divided into 9,600,000,000 Consolidated Shares each following the Share Consolidation.

As the price of the Shares approaches the limit of HK\$0.01, the Company was required to consolidate the Shares pursuant to Rule 17.76 of the GEM Listing Rules.

The Share Consolidation increase the par value of the shares of the Company (the “Shares”) and reduce the total number of Shares currently in issue. Other than the expenses incurred by the Company in relation to the Share Consolidation, the implementation thereof was not, by itself, affect the underlying assets, business operations, management or financial position of the Group or the interests of shareholders of the Company as a whole. Details of the Share Consolidation are set out in the announcement and circular of the Company dated 7 July 2009 and 23 July 2009 respectively.

## **Liquidity and financial resources**

With the funds raised previously and the internal resources of the Company, as at 30 September 2009, the Directors anticipate that the Group has adequate financial resources to meet its ongoing operations and future development, even under the impact of the financial tsunami.

***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 2009, 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 2009, 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 Commercial Corporation Asia Limited ("Lehman Brothers") (under liquidation and liquidator appointed) 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 2009:*

Name of Director	Type of interests	Number of ordinary shares held		Approximate percentage of interests
		Type of interests	Number of ordinary shares (Note 2)	
Ms. Ma Zheng	Beneficial (Note 1)		8,100,000	0.66%

*Notes:*

1. Ms. Ma Zheng is holding 12.5% of the equity interest of Future Advance Holdings Limited (“Future Advance”) and Future Advance beneficially owned 23.39% of the equity interest of the Company. In addition, Ms. Ma Zheng is an executive director of the Company and the sole director of Future Advance.
2. Adjustment was made to the balances of the number of ordinary shares resulting from the consolidation (“Share Consolidation”) of every 10 existing ordinary shares of HK\$0.00125 each in the issued and unissued share capital into one consolidated share of HK\$0.0125 each in the issued and unissued share capital of the Company duly approved at the extraordinary general meeting held on 20 August 2009 by the shareholders and becoming effective 21 August 2009.

(ii) *Long position in the underlying shares or debentures of the Company as at 30 September 2009:*

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

*Note:*

On 8 January 2008, Ms. Ma Zheng, the sole director of Future Advance and an executive Director, has been granted 20,000,000 share options (pursuant to the completion of the Rights Issue and the Share Consolidation, the number of share options has been adjusted to 2,512,000 on 20 August 2009) 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 current exercise price of HK\$0.22 per new Share (pursuant to 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).

On 8 January 2008, Mr. Liu Weichang, an independent non-executive Director, has also been granted 3,000,000 share options (pursuant to the completion of the Rights Issue and the Share Consolidation, the number of share options has been adjusted to 376,800 on 20 August 2009) 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 current exercise price of HK\$0.22 per new Share (pursuant to 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).

On 8 January 2008, Mr. Wan Tze Fan Terence, an independent non-executive Director, has also been granted 3,000,000 share options (pursuant to the completion of the Rights Issue and the Share Consolidation, the number of share options has been adjusted to 376,800 on 20 August 2009) 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 current exercise price of HK\$0.22 per new Share (pursuant to 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 2009, 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 were set out in the announcement dated 17 March 2004. As at 30 September 2009, 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 2009, the Company has 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, and (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). 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 2009 were as follows:

Grantees	Date granted	Balance	Granted during the period	Exercised during the period	Lapsed during the period	Adjusted during the period <i>(Note)</i>	Balance	Period during which the options are exercisable	Exercise price per share <i>(Note)</i>
		as at 1 January 2009					as at 30 September 2009 <i>(Note)</i>		
Ms. Ma Zheng <i>(Director)</i>	8 January 2008	20,000,000	-	-	-	(17,488,000)	2,512,000	8 July 2008 to 27 November 2011	HK\$1.752
Mr. Wan Tze Fan Terence <i>(Director)</i>	8 January 2008	3,000,000	-	-	-	(2,623,200)	376,800	8 July 2008 to 27 November 2011	HK\$1.752
Mr. Liu Weichang <i>(Director)</i>	8 January 2008	3,000,000	-	-	-	(2,623,200)	376,800	8 July 2008 to 27 November 2011	HK\$1.752
Employees	8 January 2008	560,000,000	-	-	-	(489,664,000)	70,336,000	8 July 2008 to 27 November 2011	HK\$1.752
		586,000,000	-	-	-	(512,398,400)	73,601,600		

*Note:* The number of share options and exercise price have been adjusted after the Rights Issue and Share Consolidation.

***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 2009, 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 2009, not on the total number of issued shares upon full conversion or exercise of (i) the Convertible Bonds issued to Lehman Brothers (under liquidation and liquidator appointed) 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 2009:*

Name of shareholders	Type of interests	Number of the shares held	Approximate percentage of interests
Future Advance Holdings Limited	Beneficial	287,619,446	23.39%
China Zong Heng Holdings Limited	Corporate ( <i>Note 1</i> )	287,619,446	23.39%
Mr. Yu Hongzhi	Corporate ( <i>Note 1</i> )	287,619,446	23.39%
	Beneficial	<u>11,400,000</u>	<u>0.93%</u>
	Subtotal:	299,019,446	24.32%

Name of shareholders	Type of interests	Number of the shares held	Approximate percentage of interests
APAC Resources Limited	Corporate	129,436,878	10.53%
Super Grand Investments Limited (“Super Grand”)	Beneficial (Note 2)	129,436,878	10.53%

*Notes:*

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

(ii) *Long position in the underlying shares or debentures of the Company as at 30 September 2009:*

Name	Type of interests	Description of derivatives	Number of underlying shares	Approximate percentage of interests
Lehman Brothers Holdings Inc. (under liquidation)	Beneficial	Convertible Bonds (Notes 1 & 3)	184,733,481	15.02%
Great Ocean Real Estate Limited	Beneficial	Preferred Shares (Notes 2 & 3)	359,396,454	29.23%
Mr. Zhang Zheng (張征先生)	Corporate	Preferred Shares (Notes 2 & 3)	359,396,454	29.23%

*Notes:*

1. The underlying shares are held by Lehman Brothers (under liquidation and liquidator appointed), the ultimate beneficial owner of which is Lehman Brothers Holdings Inc. (under liquidation). The total number of shares to which Lehman Brothers 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. Based on the existing issued share capital and exercise in full of all other securities carrying rights to subscribe for new shares including warrants and share options and other convertible securities convertible into new shares of the Company outstanding as at 30 September 2009, the maximum number of new shares to be issued upon full conversion of the Convertible Bonds is 184,733,481 shares, representing 10% of the issued share capital of the Company as enlarged by the full conversion of the aforesaid convertible securities. Details of the Convertible Bonds are set out in the circular of the Company dated 5 September 2007.
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 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 respectively.

Save as disclosed above, as at 30 September 2009, 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 Fulianjiang Joint Composite Limited (宜昌富連江複合材料有限公司), is the director and legal representative of 宜昌弘訊管業有限公司 (Yichang HongXun Conduit and Calling Company Limited)<sup>#</sup>, 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 the controlling shareholder of 宜昌弘訊管業有限公司 (Yichang HongXun Conduit and Calling Company Limited)<sup>#</sup> during the period under review. Save as disclosed above, as at 30 September 2009, none of the Directors, chief executive, 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 during the nine months ended 30 September 2009.

## ***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 2009 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 2009. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the period ended 30 September 2009.

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

Hong Kong, 10 November 2009

*# For identification purpose only. The English transliteration of the Chinese name in this report is included for information only, and should not be regarded as the official English name of such Chinese name.*

*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.*