

2010 First Quarterly Report



China Natural Investment Company Limited
中國天然投資有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 8250)

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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 Natural Investment Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (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.

This report will remain on the “Latest Company Reports” page of the GEM website at <http://www.hkgem.com> for at least seven (7) days from the date of publication and on the website of the Company at <http://www.chinanatural.com.hk>.

FINANCIAL HIGHLIGHTS

For the three months ended 30 September 2010:

- Revenue amounted to approximately HK\$1,244,000, representing an increase of 43.29% as compared to that of the corresponding period in 2009.
- Profit attributable to owners of the Company amounted to approximately HK\$8,658,000, while a loss of approximately HK\$16,892,000 was recorded for the corresponding period in 2009. Such profit was mainly attributable to (i) the gain arising on change in fair value of financial assets classified as held for trading; and (ii) the absence of the total equity-settled share-based payments recognized in profit or loss relating to the grant of the Company's share options.

The Board does not recommend the payment of interim dividend for the three months ended 30 September 2010 (2009: Nil).



FIRST QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the "Board") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 30 September 2010, together with the comparative unaudited figures for the corresponding period in 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 September 2010

		For the three months ended 30 September	
	<i>Notes</i>	2010 (Unaudited) HK\$	2009 (Unaudited) HK\$
Revenue	3	1,244,499	868,514
Cost of sales and services		(197,888)	(505,371)
Gross profit		1,046,611	363,143
Other income	4	18,319	51,079
Administrative expenses		(2,396,916)	(5,080,781)
Other operating expenses		(909,360)	(11,511,491)
Gain/(Loss) arising on change in fair value of financial assets classified as held for trading		10,960,729	(713,697)
Profit/(Loss) before tax	5	8,719,383	(16,891,747)
Income tax expense	6	(61,578)	–
Profit/(Loss) and total comprehensive income/(expense) for the period attributable to owners of the Company		8,657,805	(16,891,747)
Dividends	7	–	–
Earnings/(Loss) per share	8		(Restated)
– Basic		2.92 cents	(9.18) cents
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the three months ended 30 September 2010

	Share capital HK\$	Share premium HK\$	Share option reserves HK\$	Accumulated losses HK\$	Total equity attributable to owners of the Company HK\$
Balance at 1 July 2010	12,961,745	190,974,986	6,392,043	(64,385,815)	145,942,959
Profit and total comprehensive income for the period	-	-	-	8,657,805	8,657,805
Issue of new shares by way of placements	12,150,000	39,166,789	-	-	51,316,789
Transfer of reserve upon lapse of share options	-	-	(5,554,748)	5,554,748	-
Balance at 30 September 2010	<u>25,111,745</u>	<u>230,141,775</u>	<u>837,295</u>	<u>(50,173,262)</u>	<u>205,917,553</u>

For the three months ended 30 September 2009

	Share capital HK\$	Share premium HK\$	Share option reserves HK\$	Accumulated losses HK\$	Total equity attributable to owners of the Company HK\$
Balance at 1 July 2009	8,836,745	143,110,423	837,295	(62,929,810)	89,854,653
Loss and total comprehensive expense for the period	-	-	-	(16,891,747)	(16,891,747)
Issue of shares upon exercise of share options	425,000	9,350,000	-	-	9,775,000
Recognition of equity-settled share-based payments	-	-	9,098,393	-	9,098,393
Transfer of reserve upon exercise of share options	-	3,543,645	(3,543,645)	-	-
Balance at 30 September 2009	<u>9,261,745</u>	<u>156,004,068</u>	<u>6,392,043</u>	<u>(79,821,557)</u>	<u>91,836,299</u>



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands, and its shares are listed on the GEM.

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of diagnostic testing and healthcare services and sale of pharmaceutical products, provision of related research and development, advertising and public relationship services, property investment and investment holdings.

2. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") and Interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

The unaudited consolidated results have been prepared under the historical cost convention, as modified by the valuation of investments and investment properties which are measured at their fair values.

The accounting policies used in the preparation of the unaudited consolidated results are consistent with those adopted in preparing the Group's audited financial statements for the year ended 30 June 2010.

In the current period, the Group has adopted all the new and revised HKFRS issued by HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 July 2010. The adoption of these new and revised HKFRS did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current and prior periods.

The Group has not early adopted any new/revised HKFRS that have been issued but are not yet effective for the current period. The Group has already commenced an assessment of the impact of these new and revised HKFRS but is not yet in a position to reasonably estimate whether these new and revised HKFRS would have a significant impact on the Group's results of operations and financial position.

3. REVENUE

The Group's revenue represents revenue arising on provision of diagnostic testing and healthcare services, advertising and public relationship services and property investment. An analysis of the Group's revenue for the period is as follows:

	For the three months ended 30 September	
	2010 (Unaudited) HK\$	2009 (Unaudited) HK\$
Provision of diagnostic testing and healthcare services	596,481	514,904
Provision of advertising and public relationship services	–	353,610
Property investment	648,018	–
	1,244,499	868,514

4. OTHER INCOME

	For the three months ended 30 September	
	2010 (Unaudited) HK\$	2009 (Unaudited) HK\$
Interest income	7,359	30,486
Dividend income from listed investments	10,960	–
Sundry income	–	20,593
	18,319	51,079



5. PROFIT/ (LOSS) BEFORE TAX

The Group's profit/ (loss) before tax is arrived at after charging:

	For the three months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Amortization of prepaid lease payments	62,125	–
Depreciation of property, plant and equipment	74,511	187,483
Total equity-settled share-based payments recognized in profit or loss	–	9,098,393
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6. INCOME TAX EXPENSE

	For the three months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Current tax: Hong Kong	61,578	–
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Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period.

There was no material unprovided deferred taxation for the three months ended 30 September 2010 (2009: Nil).

7. DIVIDENDS

The Board does not recommend the payment of interim dividend for the three months ended 30 September 2010 (2009: Nil).

8. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings per share for the three months ended 30 September 2010 was based on the unaudited profit attributable to owners of the Company of HK\$8,657,805 (2009: Loss of HK\$16,891,747) and the weighted average number of 296,213,153 (2009: 183,996,849, as restated) shares in issue.

The calculation of diluted earnings and loss per share for the three months ended 30 September 2010 and 2009 respectively did not consider the potential ordinary shares as the exercise price of the Company's outstanding options was higher than the average market share price of the Company for the relevant periods.

EVENTS AFTER THE REPORTING PERIOD

- (i) The Group has disposed of an aggregate of 30,660,000 shares of Apollo Solar Energy Technology Holdings Limited (stock code: 566) on the open market at a total consideration of approximately HK\$22.7 million as at 5 October 2010. Further details of which were disclosed in the Company's announcement dated 11 October 2010.
- (ii) On 1 November 2010, the acquisition of Island Kingdom Company Limited and its subsidiaries (the "Island Kingdom Group") was approved by the Company's shareholders at the extraordinary general meeting of the Company. At as the date of this report, each member of the Island Kingdom Group has become an indirect wholly-owned subsidiary of the Company and the financial results of the Island Kingdom Group are consolidated into the consolidated financial statements of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the three months ended 30 September 2010, the Group recorded revenue of approximately HK\$1,244,000, representing an increase of 43.29% compared with the corresponding period in 2009. The Group has also recorded the gross profit from operation of approximately HK\$1,047,000, representing an increase of 188.21% compared with the corresponding period last year.

Benefiting from the improved global economy and a rebound in market confidence, the Group recorded a gain arising on change in fair value of financial assets of approximately HK\$10,961,000 for the period under review. The rental income generated by the acquired properties has also provided recurring income to the Group.

On 27 September 2010, the Group announced the acquisition of the public carpark nos. P101-P150 together with shroff's office on 1st Floor, Citimark, No.28 Yuen Shun Circuit, Shatin, New Territories for HK\$17,300,000. The Group is confident that the properties would generate a satisfactory income stream, and we would continue seeking potential property investments, bringing positive returns to our shareholders.

Future Prospects

As the outlook for global economy and investment climate is optimistic, the Group will continue to look for quality properties for acquisition, seek new investment opportunities with potential growth to further enhance our current investment portfolio and expand the existing business, delivering positive returns for our shareholders. The management team will identify potential business opportunities, creating synergy among different business segments.

The Group is optimistic about Hong Kong and China's healthcare and pharmaceutical markets in the long run. We will also continue to explore investment opportunities in pharmaceutical market.



On 1 November 2010, our shareholders approved the acquisition of the Island Kingdom Group at the extraordinary general meeting of the Company. As the Hong Kong and China's pharmaceutical markets are growing rapidly, this is a great opportunity for the Group to enter into the healthcare and pharmaceutical markets in Hong Kong.

The Island Kingdom Group comprises two sub-groups, namely Vida Laboratories Limited and its subsidiary (the "Vida Group") and Kingston Group Holdings Limited and its subsidiaries (the "Kingston Group"). The Vida Group operates a Good Manufacturing Practice certified factory in Hong Kong. Its core business is the manufacturing and sale of generic western medicines. Its products are mainly branded generic medicines, such as remedies for cold and flu, cough, fever and skin infection. The Kingston Group is principally engaged in the marketing and sale of health supplements via popular retail chains and selected private clinics in Hong Kong.

The healthcare consultancy IMS estimates that China will overtake Germany and France as the world's third-largest prescription medicines market next year, trailing only the U.S. and Japan. Through the well-established distribution channels of the Vida Group and the Kingston Group, we will be able to tap the market potential of pharmaceutical products and health supplements, generating substantial returns for the Group.

Financial Review

For the three months ended 30 September 2010, the Group recorded revenue of approximately HK\$1,244,000, representing an increase of 43.29% compared with the corresponding period in 2009.

Gross profit for the period under review was approximately HK\$1,047,000, representing an increase of 188.21% compared with the corresponding period last year.

Basic earnings per share was approximately HK2.92 cents compared with the basic loss per share of approximately HK9.18 cents (as restated) in the corresponding period last year.

Profit attributable to owners of the Company for the three months ended 30 September 2010 was approximately HK\$8,658,000 (2009: loss of approximately HK\$16,892,000). The turnaround was mainly attributable to (i) the gain arising on change in fair value of financial assets classified as held for trading; and (ii) the absence of the total equity-settled share-based payments recognized in profit or loss relating to the grant of the Company's share options.

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

OTHER INFORMATION

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 September 2010, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of 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 pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings in securities by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Interests in shares, underlying shares and debentures of the Company

Long positions in ordinary shares of HK\$0.05 each of the Company:

Name of Director	Capacity	Number of issued/ underlying shares held	Approximate% of the Company's issued share capital as at 30 September 2010
Mr. U Man long (<i>Note a</i>)	Beneficial owner	60,000,000	11.94%
Mr. Chow Kai Wah, Gary (<i>Note b</i>)	Beneficial owner	18,000	0.00%

Notes:

- (a) Mr. U Man long is deemed to have a long position over 3,000,000,000 shares of the Company to be allotted and issued pursuant to the referral agreement as disclosed in the circular of the Company dated 13 March 2008 (the "Referral Agreement"). The number of shares of the Company to be allotted and issued to Mr. U Man long under the Referral Agreement has been adjusted to 60,000,000 shares according to (i) the share consolidation on the basis that every ten issued and unissued shares of HK\$0.001 each in the share capital of the Company were consolidated into one consolidated share of HK\$0.01 each with effect from 6 August 2009; and (ii) the share consolidation on the basis that every five issued and unissued shares of HK\$0.01 each in the share capital of the Company were consolidated into one consolidated share of HK\$0.05 each (the "Share Consolidation") with effect from 21 January 2010.
- (b) The number of issued shares of the Company held by Mr. Chow Kai Wah, Gary has been adjusted for the Share Consolidation which became effective on 21 January 2010.



Save as disclosed above, as at 30 September 2010, none of the Directors or chief executives of the Company had any interests or short positions in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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 Rules 5.46 to 5.67 of the GEM Listing Rules.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 September 2010, the Company has not been notified by any person (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

Share Options

1. A share option scheme (the "Share Option Scheme") was adopted by the Company on 20 April 2004 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Board may, at its discretion, invite any employees, directors, advisers, consultants, licensors, distributors, suppliers, agents, customers, joint venture partners, strategic partners and services providers of and/or to any member of the Group whom the Board considers in its sole discretion, to have contributed to the Group from time to time to take up options to subscribe for shares of the Company.

Details of the movements of the share options granted under the Share Option Scheme during the three months ended 30 September 2010 are as follows:

Date of grant	Exercise period	Exercise price per share HK\$	Number of share options				Outstanding as at 30 September 2010
			Outstanding as at 1 July 2010	Granted during the period	Exercised during the period	Lapsed during the period	
14 August 2009 (Note)	14 August 2009 to 13 August 2010	0.905	18,520,000	-	-	18,520,000	-

Note: The fair value of 18,520,000 (as adjusted) share options granted on 14 August 2009 was determined by the Directors to be approximately HK\$5,555,000 with reference to a valuation performed by an independent firm of professional valuer using a Binomial model. The inputs into the model included the then share price of HK\$0.168 per share on the date of grant, the then exercise price of HK\$0.181 per share, historical volatility of 121.821%, expected option life of one year, no expected dividend and estimated annualized risk free interest rate of 0.230%.

- Pursuant to an agreement entered into between the Company and The Chinese University of Hong Kong (the "Chinese University") on 8 August 2002 relating to the grant of a right of first refusal to the Company by the Chinese University in respect of certain technology and inventions, as amended and supplemented by agreements dated 31 October 2003 and 16 April 2004, share options would be granted to the Chinese University or such persons as it might direct over the period of the term of such agreements of four years commencing from 18 June 2004.

Details of the movements of the share options granted to the person directed by the Chinese University during the three months ended 30 September 2010 are as follows:

Date of grant	Exercise period	Exercise price per share HK\$	Number of share options			
			Outstanding as at 1 July 2010	Granted during the period	Exercised/ Cancelled/ Lapsed during the period	Outstanding as at 30 September 2010
27 June 2008	27 December 2008 to 26 June 2013	6.10	213,114	-	-	213,114

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the heading "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" and "Share options" in this report, at no time during the three months ended 30 September 2010 was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Competing Interests

None of the Directors or controlling shareholders of the Company (as defined in the GEM Listing Rules) or any of their respective associates had any interest in a business which competes or may compete with the business of the Group during the three months ended 30 September 2010.



Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 30 September 2010.

Compliance with Code of Conduct for Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as a code of conduct of the Company for the Directors' securities transactions. The Company has made specific enquiry of all the Directors, and the Directors have complied with the required standard of dealings and the Company's code of conduct regarding securities transactions by the Directors throughout the three months ended 30 September 2010.

Audit Committee

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are to review the Company's annual report and accounts, interim reports and quarterly reports and to provide advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Group's financial reporting and internal control procedures.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Yip Man, Norman, Mr. Hui Sin Kwong and Mr. Leung Chi Kin. Mr. Chan Yip Man, Norman is the chairman of the Audit Committee since his appointment on 30 September 2009.

This report, including the Group's unaudited consolidated financial statements for the three months ended 30 September 2010, has been reviewed by the Audit Committee.

Code on Corporate Governance Practices

The Company endeavours in maintaining good standard of corporate governance for the enhancement of shareholders' value. The Company has complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules during the three months ended 30 September 2010.

By order of the Board
China Natural Investment Company Limited
Chow Kai Wah, Gary
Executive Director

Hong Kong, 10 November 2010

As at the date of this report, the executive Directors are Mr. U Man long, Mr. Li Wai Hung and Mr. Chow Kai Wah, Gary; and the independent non-executive Directors are Mr. Chan Yip Man, Norman, Mr. Hui Sin Kwong and Mr. Leung Chi Kin.