

# 2010/2011 Interim 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”)**

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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 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.*

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### *Executive Directors*

Mr. U Man long (*Chairman*)  
Mr. Li Wai Hung (*Chief Executive Officer*)  
Mr. Chow Kai Wah, Gary

#### *Independent Non-executive Directors*

Mr. Chan Yip Man, Norman  
Mr. Hui Sin Kwong  
Mr. Leung Chi Kin

### AUDIT COMMITTEE

Mr. Chan Yip Man, Norman (*Chairman*)  
Mr. Hui Sin Kwong  
Mr. Leung Chi Kin

### REMUNERATION COMMITTEE

Mr. Chow Kai Wah, Gary (*Chairman*)  
Mr. Chan Yip Man, Norman  
Mr. Leung Chi Kin

### COMPANY SECRETARY

Ms. Chan Lai Yee

### AUTHORISED REPRESENTATIVES

Mr. Chow Kai Wah, Gary  
Ms. Chan Lai Yee

### COMPLIANCE OFFICER

Mr. Chow Kai Wah, Gary

### REGISTERED OFFICE

PO Box 309  
Ugland House  
Grand Cayman, KY1-1104  
Cayman Islands

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1210A, 12th Floor  
Champion Building  
301-309 Nathan Road  
Kowloon  
Hong Kong

### AUDITORS

HLB Hodgson Impey Cheng  
*Chartered Accountants*  
*Certified Public Accountants*  
31/F, Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

### PRINCIPAL BANKERS

Dah Sing Bank Limited  
Hang Seng Bank Limited  
Wing Hang Bank Limited

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Corporate Services Limited  
PO Box 309  
Ugland House  
Grand Cayman, KY1-1104  
Cayman Islands

### BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

## FINANCIAL HIGHLIGHTS

For the six months ended 31 December 2010:

- Revenue amounted to approximately HK\$8,798,000, representing an increase of approximately 366.24% as compared to that of the corresponding period in 2009.
- Loss attributable to owners of the Company amounted to approximately HK\$1,227,000 (2009: Profit of approximately HK\$9,379,000). The loss was mainly attributable to the decrease in gain arising on change in fair value of financial assets classified as held for trading as compared to that of the corresponding period in 2009.

As at 31 December 2010:

- The Group had cash and bank balances of approximately HK\$75,301,000 (30 June 2010: HK\$42,973,000). Net current assets amounted to approximately HK\$123,029,000 (30 June 2010: HK\$84,745,000).
- Current ratio (defined as total current assets divided by total current liabilities) was approximately 12.64 times (30 June 2010: 71.78 times). Gearing ratio, expressed as a percentage of total liabilities over total assets was approximately 0.05 (30 June 2010: 0.01).

The Board does not recommend the payment of interim dividend for the six months ended 31 December 2010 (2009: Nil).



## INTERIM 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 and six months ended 31 December 2010, together with the comparative unaudited figures for the corresponding periods in 2009 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 31 December 2010

	Notes	Three months ended 31 December		Six months ended 31 December	
		2010 (Unaudited) HK\$	2009 (Unaudited) HK\$	2010 (Unaudited) HK\$	2009 (Unaudited) HK\$
Revenue	3	<b>7,553,118</b>	1,018,423	<b>8,797,617</b>	1,886,937
Cost of sales and services		<b>(3,946,722)</b>	(423,401)	<b>(4,144,610)</b>	(928,772)
Gross profit		<b>3,606,396</b>	595,022	<b>4,653,007</b>	958,165
Other income	5	<b>39,669</b>	100,296	<b>57,988</b>	151,375
Selling and distribution expenses		<b>(1,254,764)</b>	–	<b>(1,254,764)</b>	–
Administrative expenses		<b>(3,625,327)</b>	(3,376,483)	<b>(6,022,243)</b>	(8,457,264)
Other operating expenses		<b>(1,191,472)</b>	(973,779)	<b>(2,100,832)</b>	(12,485,270)
(Loss)/Gain arising on change in fair value of financial assets classified as held for trading		<b>(7,437,352)</b>	29,925,827	<b>3,523,377</b>	29,212,130
(Loss)/Profit before tax	6	<b>(9,862,850)</b>	26,270,883	<b>(1,143,467)</b>	9,379,136
Income tax expense	7	<b>(21,572)</b>	–	<b>(83,150)</b>	–
(Loss)/Profit and total comprehensive (expense)/income for the period attributable to owners of the Company		<b>(9,884,422)</b>	26,270,883	<b>(1,226,617)</b>	9,379,136
Dividends	8	–	–	–	–
(Loss)/Earnings per share	9				
– Basic		<b>(0.019)</b>	0.126	<b>(0.003)</b>	0.048
– Diluted		<b>N/A</b>	N/A	<b>N/A</b>	0.048

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010 and 30 June 2010

	Notes	As at 31 December 2010 (Unaudited) HK\$	As at 30 June 2010 (Audited) HK\$
<b>Non-current assets</b>			
Property, plant and equipment		3,394,922	833,504
Prepaid lease payments		4,804,334	4,928,583
Investment properties		73,761,750	55,800,000
Goodwill		7,391,958	–
		<u>89,352,964</u>	<u>61,562,087</u>
<b>Current assets</b>			
Inventory		5,776,528	–
Trade and other receivables	10	22,326,857	4,425,542
Held-for-trading investments		30,190,759	38,543,793
Cash and bank balances		75,301,340	42,972,539
		<u>133,595,484</u>	<u>85,941,874</u>
<b>Current liabilities</b>			
Trade and other payables	11	10,566,804	1,197,353
<b>Net current assets</b>			
		<u>123,028,680</u>	<u>84,744,521</u>
<b>Total assets less current liabilities</b>			
		<u>212,381,644</u>	<u>146,306,608</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities		363,649	363,649
<b>Net assets</b>			
		<u>212,017,995</u>	<u>145,942,959</u>
<b>Capital and reserves</b>			
Share capital		30,131,745	12,961,745
Reserves		181,886,250	132,981,214
<b>Total equity attributable to owners of the Company</b>			
		<u>212,017,995</u>	<u>145,942,959</u>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2010

	Reserves					Total HK\$
	Share capital HK\$	Share premium HK\$	Share options reserve HK\$	Accumulated losses HK\$	Sub-total of reserves HK\$	
<b>Balance at 1 July 2010 (Audited)</b>	<b>12,961,745</b>	<b>190,974,986</b>	<b>6,392,043</b>	<b>(64,385,815)</b>	<b>132,981,214</b>	<b>145,942,959</b>
<b>Loss and total comprehensive expenses for the period</b>	-	-	-	<b>(1,226,617)</b>	<b>(1,226,617)</b>	<b>(1,226,617)</b>
<b>Issue of new shares upon placements</b>	<b>17,170,000</b>	<b>50,131,653</b>	-	-	<b>50,131,653</b>	<b>67,301,653</b>
<b>Transfer of reserve upon lapse of share options</b>	-	-	<b>(5,554,748)</b>	<b>5,554,748</b>	-	-
<b>Balance at 31 December 2010 (Unaudited)</b>	<b>30,131,745</b>	<b>241,106,639</b>	<b>837,295</b>	<b>(60,057,684)</b>	<b>181,886,250</b>	<b>212,017,995</b>

For the six months ended 31 December 2009

	Reserves					Total HK\$
	Share capital HK\$	Share premium HK\$	Share options reserve HK\$	Accumulated losses HK\$	Sub-total of reserves HK\$	
Balance at 1 July 2009 (Audited)	8,836,745	143,110,423	837,295	(62,929,810)	81,017,908	89,854,653
Profit and total comprehensive income for the period	-	-	-	9,379,136	9,379,136	9,379,136
Issue of new shares upon placements	1,850,000	21,548,750	-	-	21,548,750	23,398,750
Issue of shares upon exercise of share options	425,000	9,350,000	-	-	9,350,000	9,775,000
Recognition of share-based payments	-	-	9,098,393	-	9,098,393	9,098,393
Transfer of reserve upon exercise of share options	-	3,543,645	(3,543,645)	-	-	-
Balance at 31 December 2009 (Unaudited)	11,111,745	177,552,818	6,392,043	(53,550,674)	130,394,187	141,505,932



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2010

	<b>Six months ended 31 December</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$</b>	<b>HK\$</b>
Net cash used in operating activities	<b>(10,159,857)</b>	(2,139,433)
Net cash used in investing activities	<b>(24,813,005)</b>	(43,655,778)
Net cash generated from financing activities	<b>67,301,663</b>	33,173,750
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	<b>32,328,801</b>	(12,621,461)
Cash and cash equivalents at beginning of period	<b>42,972,539</b>	52,926,051
	<hr/>	<hr/>
Cash and cash equivalents at end of period	<b>75,301,340</b>	40,304,590
	<hr/>	<hr/>
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	<b>75,301,340</b>	40,304,590
	<hr/>	<hr/>



## 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 GEM.

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

### 2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosures required by the GEM Listing Rules.

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, as modified by the valuation of certain properties and financial instruments which are measured at their fair values.

The accounting policies used in the preparation of the unaudited condensed consolidated financial statements 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 Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 July 2010 as set out below:

HKFRSs (Amendments)	Amendments to HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAS 39, HKFRS 5 and HKFRS 8 as part of Improvements to HKFRSs 2009
HKAS 32 (Amendment)	Classification of Rights Issues
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's condensed consolidated financial statements and amounts reported for the current and prior periods.

The Group has not early adopted the following new and revised HKFRSs that have been issued but are not yet effective for the current period:

HKAS 24 (Revised)	Related Party Disclosures <sup>1</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013.

The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to reasonably estimate whether these new and revised HKFRSs 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 service, manufacturing and sale of pharmaceutical products, provision of advertising and public relations services and property investment. An analysis of the Group's revenue for the period is as follows:

	Three months ended		Six months ended	
	31 December		31 December	
	2010	2009	2010	2009
	HK\$	HK\$	HK\$	HK\$
Provision of diagnostic testing and healthcare service, manufacturing and sale of pharmaceutical products	<b>6,940,759</b>	573,343	<b>7,537,240</b>	1,088,247
Provision of advertising and public relations services	-	266,464	-	620,074
Property investment	<b>612,359</b>	178,616	<b>1,260,377</b>	178,616
	<b><u>7,553,118</u></b>	<u>1,018,423</u>	<b><u>8,797,617</u></b>	<u>1,886,937</u>



#### 4. SEGMENT INFORMATION

The Group has identified the following four operating and reportable segments under HKFRS 8 "Operating Segments":

- Provision of diagnostic testing and healthcare service, manufacturing and sale of pharmaceutical products
- Provision of advertising and public relations services
- Property investment
- Research and development

#### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

#### For the six months ended 31 December 2010

	Provision of diagnostic testing and healthcare service, manufacturing and sale of pharmaceutical products HK\$	Provision of advertising and public relations services HK\$	Property investment HK\$	Research and development HK\$	Total HK\$
Segment revenue	7,537,240	-	1,260,377	-	8,797,617
Segment results	(4,440,010)	(95,008)	544,684	(300)	(3,990,634)
Other income					57,988
Central administration costs					(734,198)
Gain arising on change in fair value of financial assets classified as held for trading					3,523,377
Loss before tax					(1,143,467)
Income tax expense					(83,150)
Loss for the period					(1,226,617)

## For the six months ended 31 December 2009

	Provision of diagnostic testing and healthcare service, manufacturing and sale of pharmaceutical products HK\$	Provision of advertising and public relations services HK\$	Property investment HK\$	Research and development HK\$	Total HK\$
Segment revenue	1,088,247	620,074	178,616	–	1,886,937
Segment results	(15,703,440)	(281,117)	(506,535)	(1,277,316)	(17,768,408)
Other income					151,375
Central administration costs					(2,215,961)
Gain arising on change in fair value of financial assets classified as held for trading					29,212,130
Profit before tax					9,379,136
Income tax expense					–
Profit for the period					9,379,136



## 5. OTHER INCOME

	Three months ended 31 December		Six months ended 31 December	
	2010 HK\$	2009 HK\$	2010 HK\$	2009 HK\$
Interest income	10,537	77,703	17,896	108,189
Dividend income from listed investments	26,000	22,000	36,960	22,000
Sundry income	3,132	593	3,132	21,186
	<b>39,669</b>	<b>100,296</b>	<b>57,988</b>	<b>151,375</b>

## 6. (LOSS)/PROFIT BEFORE TAX

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

	Three months ended 31 December		Six months ended 31 December	
	2010 HK\$	2009 HK\$	2010 HK\$	2009 HK\$
Amortization of prepaid lease payments	62,125	–	124,250	–
Depreciation of property, plant and equipment	285,294	181,612	359,805	371,505
Cost of inventories sold	1,720,729	–	1,720,729	–
Share-based payment expenses	–	–	–	9,098,393

## 7. INCOME TAX EXPENSE

	Three months ended 31 December		Six months ended 31 December	
	2010 HK\$	2009 HK\$	2010 HK\$	2009 HK\$
Current tax: Hong Kong	21,572	–	83,150	–

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 and six months ended 31 December 2010 (2009: Nil).

## 8. DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 31 December 2010 (2009: Nil).

## 9. (LOSS)/EARNINGS PER SHARE

The calculation of the basic loss per share for the three months ended 31 December 2010 was based on the unaudited loss attributable to owners of the Company of HK\$9,884,422 (2009: Profit of HK\$26,270,883) and the weighted average number of 519,695,762 (2009: 208,158,805) shares in issue.

The calculation of the basic loss per share for the six months ended 31 December 2010 was based on the unaudited loss attributable to owners of the Company of HK\$1,226,617 (2009: Profit of HK\$9,379,136) and the weighted average number of 407,954,457 (2009: 196,077,827) shares in issue.

The calculation of the diluted loss per share for the three months and six months ended 31 December 2010 did not consider the potential ordinary shares as the exercise price of the Company's outstanding options was higher than the average market price of the Company's share for the relevant periods.

The calculation of the diluted earnings per share for the three months ended 31 December 2009 did not consider the potential ordinary shares as the exercise price of the Company's outstanding options was higher than the average market price of the Company's share for the relevant period.

The calculation of the diluted earnings per share for the six months ended 31 December 2009 was based on the unaudited profit attributable to owners of the Company of HK\$9,379,136 and 196,082,501 shares, being the weighted average number of shares outstanding during the period after adjusting for the effects of all potential dilutive shares.

## 10. TRADE AND OTHER RECEIVABLES

	<b>As at 31 December 2010 (Unaudited) HK\$</b>	As at 30 June 2010 (Audited) HK\$
Trade receivables	<b>7,352,759</b>	520,194
Receivables arising from dealing in listed securities	<b>8,343,509</b>	3,101,585
Deposits paid	<b>4,194,468</b>	29,531
Prepayments	<b>236,121</b>	258,349
Other receivables	<b>2,200,000</b>	515,883
	<b>22,326,857</b>	4,425,542



The Group's revenue are entered into on credit terms ranging from 30 to 60 days. The ageing analysis of these trade receivables at the respective balance sheet dates based on the invoice date is as follows:

	<b>As at 31 December 2010 (Unaudited) HK\$</b>	As at 30 June 2010 (Audited) HK\$
0 – 30 days	<b>3,081,863</b>	246,977
31 – 60 days	<b>2,189,996</b>	47,320
61 – 90 days	<b>1,098,109</b>	31,325
More than 90 days	<b>982,791</b>	194,572
	<b><u>7,352,759</u></b>	<u>520,194</u>

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at as 31 December 2010 but against which the Group has not recognized an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

#### **Ageing of past due but not impaired**

	<b>As at 31 December 2010 (Unaudited) HK\$</b>	As at 30 June 2010 (Audited) HK\$
Up to 3 months	<b>1,294,984</b>	78,645
3 to 6 months	<b>283,614</b>	970
Over 6 months	<b>699,177</b>	193,602
	<b><u>2,277,775</u></b>	<u>273,217</u>



## 11. TRADE AND OTHER PAYABLES

	<b>As at 31 December 2010 (Unaudited) HK\$</b>	As at 30 June 2010 (Audited) HK\$
Trade payables	<b>3,658,808</b>	71,855
Other payables	<b>6,257,866</b>	956,998
Rental deposits received	<b>650,130</b>	168,500
	<b><u>10,566,804</u></b>	<u>1,197,353</u>

The Group's purchases are entered into on average credit terms of 30 days. The following is the ageing analysis of trade payables based on the invoice date:

	<b>As at 31 December 2010 (Unaudited) HK\$</b>	As at 30 June 2010 (Audited) HK\$
0 – 30 days	<b>1,307,514</b>	66,393
31 – 60 days	<b>1,257,207</b>	–
61 – 90 days	<b>181,264</b>	–
More than 90 days	<b>912,823</b>	5,462
	<b><u>3,658,808</u></b>	<u>71,855</u>

## 12. EVENTS AFTER THE REPORTING PERIOD

On 24 November 2010, the Group entered into two sale and purchase agreements with two vendors for the acquisition of the entire issued share capital of PR ASIA CONSULTANTS LIMITED at an aggregate cash consideration of HK\$33,600,000 (the "Acquisition"). The Acquisition has been approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 17 January 2011. Details of the Acquisition were set out in the announcement and circular of the Company dated 3 December 2010 and 31 December 2010 respectively. As of the date of approval of these financial statements, the Acquisition has been completed.



## MANAGEMENT DISCUSSION AND ANALYSIS

### **Business Review**

#### *Provision of diagnostic testing and healthcare service business*

For the six months ended 31 December 2010, the Group's provision of diagnostic testing and healthcare service business achieved a revenue of approximately HK\$1,335,000, representing an increase of 22.71% compared with the corresponding period in 2009. The Group has enjoyed steady growth in the core diagnostic testing and healthcare service during the period under review.

#### *Manufacturing and sale of pharmaceutical products business*

The Group has been actively seeking to expand its business lines and explore possibilities to tap the pharmaceutical market.

On 3 November 2010, the Group completed the acquisition of Island Kingdom Company Limited and its subsidiaries (the "Island Kingdom Group"). The Island Kingdom Group has a Good Manufacturing Practice licensed pharmaceutical manufacturing plant in Hong Kong. It supplies mainly Western pharmaceutical products to medical doctors and the Hospital Authority in Hong Kong. The Island Kingdom Group has good market reputation and wide distribution network in Hong Kong. Such acquisition is a great opportunity for the Group to re-enter the healthcare and pharmaceutical markets in Hong Kong.

For the period under review, the Group's manufacturing and sale of pharmaceutical products business recorded a revenue of approximately HK\$6,202,000, accounted for 70.49% of the Group's total revenue. Along with a team of sophisticated marketing professionals, the Group is confident that it would be able to tap the market potential of pharmaceutical products and health supplements market in Hong Kong and grow the pharmaceutical business quickly.

#### *Assets investment*

The Group has been actively managing its financial resources to enhance its income source and bring better return to the Company's shareholders. Due to the improved global economy and positive market confidence, the Group recorded a gain on investment in the financial assets classified as held for trading of approximately HK\$3,523,000 for the six months ended 31 December 2010.

For the period under review, the Group recorded rental income generated by the acquired properties of approximately HK\$1,260,000. The Group will continue to seek potential property investments, so as to deliver stable income for the Group.

## Outlook

Looking forward, the Group will continue its focus on the pharmaceutical business and assets investment business. On the other hand, the Group sees the great business opportunity in the financial sector of Hong Kong, which is expected to flourish exponentially in the near future. As the global economy and investment climate is stable and positive, the Group will seek new investment opportunities in the field of financial servicing, including the possibility to establish a securities company in Hong Kong. We believe that the investment in financial business will provide the Group another important business line and profit source. The management will strive to enhance our current investment portfolio by identifying potential business opportunities so as to generate great returns for the Group.

In line with the financial servicing business, the Group acquired a public relations company which provides financial investors relations and public relations services to companies including listed enterprises. This line of business is supplementing and complementing part and parcel of the financial industry. The proposed acquisition of PR ASIA CONSULTANTS LIMITED ("PR ASIA") has been approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 17 January 2011. As the public relations industry in Hong Kong and China is growing rapidly, in tandem with the booming financial sector, this is a strategic opportunity for the Group to strengthen its advertising and public relations business.

PR ASIA is a Hong Kong-based public relations company focusing on financial communications. Since its establishment in 2001, PR ASIA has been providing strategic counselling services in corporate communications, media relations, investor relations, issue/crisis management, media training and event management to different clients including Hong Kong-listed companies, private banks, quasi-government bodies and multinational corporations with headquarters in Asia, Europe and America.

Capitalizing on the Group's efforts in advertising and public relations over the years, the Group believes such acquisition represents a strategic opportunity to strengthen its presence in those fields. As the economies of Hong Kong and China continue to enjoy steady growth, the Group is optimistic about the prospect of the advertising and public relations business of PR ASIA, and that such acquisition would generate good returns for the shareholders of the Company.

## Financial Review

For the six months ended 31 December 2010, the Group recorded a revenue of HK\$8,798,000, representing an increase of 366.24% compared with the corresponding period in 2009.

Gross profit for the period was approximately HK\$4,653,000, an increase of 385.62% compared with the corresponding period in 2009.



Basic loss per share was approximately HK\$0.003 compared with basic earnings per share of approximately HK\$0.048 in the corresponding period in 2009.

Loss attributable to owners of the Company for the six months ended 31 December 2010 was approximately HK\$1,227,000 (2009: Profit of approximately HK\$9,379,000). The loss was mainly attributable to the decrease in gain arising on change in fair value of financial assets classified as held for trading as compared to that of the corresponding period in 2009.

### **Liquidity and Financial Resources**

As at 31 December 2010, the Group held cash and bank balances of approximately HK\$75,301,000 (30 June 2010: HK\$42,973,000). Net current assets amounted to approximately HK\$123,029,000 (30 June 2010: HK\$84,745,000).

As at 31 December 2010, current ratio (defined as total current assets divided by total current liabilities) was approximately 12.64 times (30 June 2010: 71.78 times). Gearing ratio, expressed as a percentage of total liabilities over total assets was approximately 0.05 (30 June 2010: 0.01).

The Group had no bank borrowing as at 31 December 2010 (30 June 2010: Nil).

### **Capital Structure**

As at 31 December 2010, total equity attributable to owners of the Company was approximately HK\$212,018,000 (30 June 2010: HK\$145,943,000).

On 20 April 2010, the Company entered into a placing agreement with a placing agent, pursuant to which the Company conditionally agreed to place, through the placing agent and on a best effort basis, a maximum of 243,000,000 new shares at a placing price of HK\$0.43 per share to not fewer than six independent placees under a specific mandate (the "SM Placing"). On 7 July 2010, the Company entered into a supplemental placing agreement with the placing agent, pursuant to which the placing price was revised to HK\$0.22 per share. Details were disclosed in the announcements of the Company dated 20 April 2010 and 7 July 2010 respectively. The SM Placing was completed on 17 September 2010.

On 24 November 2010, the Company entered into two placing agreements with a placing agent, pursuant to which the Company conditionally agreed to place, through the placing agent and on a best effort basis, (i) a maximum of 100,400,000 new shares at a placing price of HK\$0.165 per share to not fewer than six independent placees under a general mandate (the "GM Placing"); and (ii) a maximum of 505,700,000 new shares at a placing price of HK\$0.165 per share to not fewer than six independent placees under a specific mandate respectively. Details were disclosed in the announcement of the Company dated 3 December 2010. The GM Placing was completed on 16 December 2010.

For future expansion and development of the Group, the Board proposed an increase in the authorised share capital of the Company from HK\$50,000,000 divided into 1,000,000,000 shares to HK\$500,000,000 divided into 10,000,000,000 shares by creating additional 9,000,000,000 shares (the "Increase in Authorised Share Capital"). Details were disclosed in the announcement of the Company dated 24 December 2010. The Increase in Authorised Share Capital has been approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 17 January 2011.

### **Exchange Exposure**

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars. It is the Group's policy for its operating entities to operate in their corresponding local currencies to minimize currency risks. The Group had an insignificant exchange risk exposure since the principal businesses were conducted and recorded in Hong Kong dollars during the period under review.

### **Significant Investments and Acquisitions**

For the six months ended 31 December 2010, the Group had the following significant investments and acquisitions:

- (i) On 9 September 2010, the Group entered into a sale and purchase agreement for the acquisition of the entire issued share capital of Island Kingdom Company Limited, and all the shareholder's loans to Island Kingdom Company Limited and its subsidiary, at an aggregate cash consideration of HK\$21,500,000 (the "Acquisition"). The Acquisition constitutes a very substantial acquisition for the Company under the GEM Listing Rules and was approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 1 November 2010. Details of the Acquisition were set out in the Company's announcement dated 9 September 2010 and the Company's circular dated 15 October 2010 respectively.
- (ii) 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, Hong Kong at a consideration of HK\$17,300,000. Details were disclosed in the Company's announcement dated 27 September 2010.
- (iii) On 11 November 2010, the Group announced the acquisition of Shop No.G12, Ground Floor, Commercial Podium, Sincere House, No.83 Argyle Street, Kowloon, Hong Kong at a consideration of HK\$17,460,000. Details were disclosed in the Company's announcement dated 11 November 2010.



- (iv) On 24 November 2010, the Group entered into two sale and purchase agreements for the acquisition of the entire issued share capital of PR ASIA, at an aggregate cash consideration of HK\$33,600,000. PR ASIA is a Hong Kong-based public relations company focusing on financial communications. The above acquisition constitutes a very substantial acquisition for the Company under the GEM Listing Rules and was approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 17 January 2011. Details of the above acquisition were set out in the Company's announcement dated 3 December 2010 and the Company's circular dated 31 December 2010 respectively.

### Contingent Liabilities

As at 31 December 2010, the Group had no significant contingent liabilities.

### Charges

As at 31 December 2010, none of the assets of the Group were pledged as security for any banking facilities.

## OTHER INFORMATION

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

As at 31 December 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 31 December 2010
Mr. U Man long ( <i>Note</i> )	Beneficial owner	60,000,000	9.96%
Mr. Chow Kai Wah, Gary	Beneficial owner	18,000	0.00%

**Note:** Mr. U Man long was 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.

Since the expiration of Mr. U Man long's appointment under the Referral Agreement with effect from 31 January 2011, Mr. U Man long ceased to have any interests in the shares of the Company as at the date of this report.

Save as disclosed above, as at 31 December 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 31 December 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 in the share options granted under the Share Option Scheme during the six months ended 31 December 2010 are as follows:

Date of grant	Exercise period	Exercise price per share HK\$	Number of share options				Outstanding as at 31 December 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 in the share options granted to the person directed by the Chinese University during the six months ended 31 December 2010 are as follows:

Date of grant	Exercise period	Exercise price per share HK\$	Number of share options			Outstanding as at 31 December 2010
			Outstanding as at 1 July 2010	Granted during the period	Exercised/ Cancelled/ Lapsed during the period	
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 in the sub-sections headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" and "Share options" respectively under the section headed "Other Information" in this report, at no time during the six months ended 31 December 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.

### **Employees and Remuneration Policies**

As at 31 December 2010, there were approximately 75 staff members employed by the Group.

The Group remunerates its employees mainly based on industry practices and their respective educational background, experience and performance. On top of the regular remuneration and discretionary bonus, share options may be granted to selected employee(s) by reference to the Group's performance as well as individual's performance. In addition, each employee enjoys mandatory provident fund, medical allowance and other fringe benefits.

### **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 six months ended 31 December 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 six months ended 31 December 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 six months ended 31 December 2010.

### **Remuneration Committee**

The remuneration committee of the Company (the "Remuneration Committee") was established with specific terms of reference. The Remuneration Committee is mainly responsible for making recommendation to the Board on policies and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.



The Remuneration Committee comprises two independent non-executive Directors, namely Mr. Chan Yip Man, Norman and Mr. Leung Chi Kin and one executive Director, namely Mr. Chow Kai Wah, Gary who is the chairman of the Remuneration 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 six months ended 31 December 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 report 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 condensed consolidated financial statements for the six months ended 31 December 2010, has been reviewed by the Audit Committee.

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

Hong Kong, 9 February 2011

*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.*