

2011 Third 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 Announcements” page of the GEM website at <http://www.hkgem.com> for at least seven days from the date of publication and on the website of the Company at <http://www.chinanatural.com.hk>.

FINANCIAL HIGHLIGHTS

For the nine months ended 31 March 2011:

- Revenue amounted to approximately HK\$24,387,000, representing an increase of 708.89% as compared to that of the corresponding period in 2010.
- Profit attributable to owners of the Company amounted to approximately HK\$3,571,000 (2010: HK\$1,415,000).

The Board does not recommend the payment of a dividend for the nine months ended 31 March 2011 (2010: Nil).



THIRD QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and nine months ended 31 March 2011, together with the comparative unaudited figures for the corresponding periods in 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 31 March 2011

	Notes	Three months ended 31 March		Nine months ended 31 March	
		2011 (Unaudited) HK\$	2010 (Unaudited) HK\$	2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Revenue	3	15,589,279	1,127,911	24,386,896	3,014,848
Cost of sales and services		(8,419,306)	(537,157)	(12,563,916)	(1,465,929)
Gross profit		7,169,973	590,754	11,822,980	1,548,919
Other income	4	25,746	128,138	83,734	279,513
Selling and distribution expenses		(1,398,014)	–	(2,652,778)	–
Administrative expenses		(7,237,950)	(2,138,233)	(13,260,193)	(10,595,497)
Other operating expenses		(1,064,770)	(2,859,214)	(3,165,602)	(15,344,484)
Gain/(Loss) arising on change in fair value of financial assets classified as held for trading		7,649,995	(3,685,780)	11,173,372	25,526,350
Profit/(Loss) before tax	5	5,144,980	(7,964,335)	4,001,513	1,414,801
Income tax expense	6	(347,296)	–	(430,446)	–
Profit/(Loss) and total comprehensive income/(expense) for the period attributable to owners of the Company		4,797,684	(7,964,335)	3,571,067	1,414,801
Dividends	7	–	–	–	–
Earnings/(Loss) per share	8				
– Basic		0.007	(0.036)	0.007	0.007
– Diluted		N/A	N/A	N/A	0.007

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 March 2011

	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 2010 (Audited)	12,961,745	190,974,986	6,392,043	(64,385,815)	132,981,214	145,942,959
Profit and total comprehensive income for the period	-	-	-	3,571,067	3,571,067	3,571,067
Issue of new shares upon placements	42,455,000	105,360,061	-	-	105,360,061	147,815,061
Transfer of reserve upon lapse of share options	-	-	(5,554,748)	5,554,748	-	-
Balance at 31 March 2011 (Unaudited)	55,416,745	296,335,047	837,295	(55,260,000)	241,912,342	297,329,087

For the nine months ended 31 March 2010

	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	-	-	-	1,414,801	1,414,801	1,414,801
Issue of new shares upon placement	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 March 2010 (Unaudited)	11,111,745	177,552,818	6,392,043	(61,515,009)	122,429,852	133,541,597



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 services, 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 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 condensed consolidated results 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 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 the 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, 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		Nine months ended	
	31 March		31 March	
	2011	2010	2011	2010
	HK\$	HK\$	HK\$	HK\$
Provision of diagnostic testing and healthcare services, manufacturing and sale of pharmaceutical products	10,360,024	924,511	17,897,264	2,012,758
Provision of advertising and public relations services	4,236,727	–	4,236,727	620,074
Property investment	992,528	203,400	2,252,905	382,016
	15,589,279	1,127,911	24,386,896	3,014,848

4. OTHER INCOME

	Three months ended		Nine months ended	
	31 March		31 March	
	2011	2010	2011	2010
	HK\$	HK\$	HK\$	HK\$
Interest income	9,217	121,108	27,113	229,297
Dividend income from listed investments	2,400	6,400	39,360	28,400
Sundry income	14,129	630	17,261	21,816
	25,746	128,138	83,734	279,513



5. PROFIT/(LOSS) BEFORE TAX

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

	Three months ended 31 March		Nine months ended 31 March	
	2011 HK\$	2010 HK\$	2011 HK\$	2010 HK\$
Depreciation of property, plant and equipment	352,973	173,637	837,028	545,142
Cost of inventories sold	3,577,537	–	5,298,266	–
Share-based payment expenses	–	–	–	9,098,393
	<u>–</u>	<u>–</u>	<u>–</u>	<u>9,098,393</u>

6. INCOME TAX EXPENSE

	Three months ended 31 March		Nine months ended 31 March	
	2011 HK\$	2010 HK\$	2011 HK\$	2010 HK\$
Current tax: Hong Kong	347,296	–	430,446	–
	<u>347,296</u>	<u>–</u>	<u>430,446</u>	<u>–</u>

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 nine months ended 31 March 2011 (2010: Nil).

7. DIVIDENDS

The Board does not recommend the payment of a dividend for the nine months ended 31 March 2011 (2010: Nil).

8. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings per share for the three months ended 31 March 2011 was based on the unaudited profit attributable to owners of the Company of HK\$4,797,684 (2010: Loss of HK\$7,964,335) and the weighted average number of 692,537,114 (2010: 222,234,892) shares in issue.

The calculation of the basic earnings per share for the nine months ended 31 March 2011 was based on the unaudited profit attributable to owners of the Company of HK\$3,571,067 (2010: HK\$1,414,801) and the weighted average number of 501,430,512 (2010: 204,669,563) shares in issue.

The calculation of diluted earnings per share for the three months and nine months ended 31 March 2011 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.

The calculation of diluted loss per share for the three months ended 31 March 2010 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.

The calculation of the diluted earnings per share for the nine months ended 31 March 2010 was based on the unaudited profit attributable to owners of the Company of HK\$1,414,801 and 204,672,702 shares, being the weighted average number of shares outstanding during the period after adjusting for the effects of all potential dilutive shares.



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the nine months ended 31 March 2011 (the “Period”), the Group recorded revenue of approximately HK\$24,387,000, representing an increase of 708.89% compared with the corresponding period in 2010. The Group also recorded gross profit from operation of approximately HK\$11,823,000 for the Period, representing an increase of 663.31% compared with the corresponding period last year.

Advertising and Public Relations Business

In January 2011, the Group completed the acquisition of PR ASIA CONSULTANTS LIMITED. As the Hong Kong and China’s public relations industry is growing rapidly, this is a strategic opportunity for the Group to strengthen its advertising and public relations business. The Group is confident that this would create a significant income stream for the Group. For the Period, the Group’s provision of advertising and public relations business achieved revenue of approximately HK\$4,237,000.

Assets Investment

On 30 March 2011, the Group announced the acquisition of a property for commercial use located at Shop No. 21, Ground Floor, Grandway Garden, No. 16 Mei Tin Road and Nos. 15 and 35 Tsuen Nam Road, Shatin, New Territories, Hong Kong at a consideration of HK\$40,427,000. This acquisition allows the Group to enlarge its investment property portfolio and would create a satisfactory income stream for the Group.

For the Period, the Group recorded rental income generated by the acquired properties of approximately HK\$2,253,000. The Group will continue to seek potential property investments, delivering stable income for the Group.

The Group has been actively managing its financial resources to enhance its income source and bring better return to the Company’s shareholders. By virtue of the improved global economy and positive market confidence, the Group recorded a gain arising on change in fair value of financial assets classified as held for trading of approximately HK\$11,173,000 for the Period.

Manufacturing and Selling of Pharmaceutical Products Business

For the Period, the Group’s manufacturing and selling of pharmaceutical products business recorded revenue of approximately HK\$15,950,000, accounted for 65.40% of the Group’s total revenue.

Outlook

Looking forward, the Group is optimistic about the investment market. We will continue to seek new business opportunities and investment in quality properties to diversify our business risk and further strengthen the investment portfolio. With a strong portfolio in the property market, the Group could enjoy future valuation gains from the acquired properties. Besides, the Group will actively explore the possibility to establish a securities company in Hong Kong.

We will continue to develop assets investment business, and advertising and public relations business. As the economies of Hong Kong and China continue to enjoy steady growth, we are optimistic about the prospect of the advertising and public relations business. The Group is confident that these business segments will generate substantial returns for the Group.

Financial Review

For the Period, the Group recorded revenue of HK\$24,387,000, representing an increase of 708.89% compared with the corresponding period in 2010.

Gross profit for the Period was approximately HK\$11,823,000, an increase of 663.31% compared with the corresponding period in 2010.

Basic earnings per share for the Period was approximately HK\$0.007 (2010: HK\$0.007).

Profit attributable to owners of the Company for the Period was approximately HK\$3,571,000 (2010: HK\$1,415,000).

The Board does not recommend the payment of a dividend for the Period.

OTHER INFORMATION

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

As at 31 March 2011, 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 March 2011
Mr. Chow Kai Wah, Gary	Beneficial owner	18,000	0.00%

Save as disclosed above, as at 31 March 2011, 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 March 2011, the Company has not been notified by any person (other than the Directors or 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 nine months ended 31 March 2011 are as follows:

Date of grant	Exercise period	Exercise price per share HK\$	Number of share options				Outstanding as at 31 March 2011
			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 nine months ended 31 March 2011 are as follows:

Date of grant	Exercise period	Exercise price per share HK\$	Number of share options			Outstanding as at 31 March 2011
			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 nine months ended 31 March 2011 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 nine months ended 31 March 2011.

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 nine months ended 31 March 2011.

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 nine months ended 31 March 2011.

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 nine months ended 31 March 2011.

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 (the chairman of the Audit Committee), Mr. Hui Sin Kwong and Mr. Leung Chi Kin.

This report, including the Group's unaudited condensed consolidated financial statements for the nine months ended 31 March 2011, 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 May 2011

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