



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)

First Quarterly Report

2011



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.

FINANCIAL HIGHLIGHTS

For the three months ended 30 September 2011:

- Revenue amounted to approximately HK\$14,922,000, representing a significant increase of 1,099.06% as compared with that of the corresponding period in 2010.
- Loss attributable to owners of the Company amounted to approximately HK\$13,867,000 (2010: Profit of approximately HK\$8,658,000). Such loss was mainly due to a loss arising on change in fair value of financial assets classified as held for trading.

The Board does not recommend the payment of dividend for the three months ended 30 September 2011 (2010: Nil).

FIRST QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the "Board") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30 September 2011, together with the comparative unaudited figures for the corresponding period in 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 September 2011

		For the three months ended 30 September	
	Notes	2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Revenue	3	14,922,289	1,244,499
Cost of sales and services provided		(6,719,383)	(197,888)
Gross profit		8,202,906	1,046,611
Other income	4	308,864	18,319
Selling and distribution expenses		(2,134,652)	–
Administrative expenses		(8,902,155)	(2,396,916)
Other operating expenses		(1,106,772)	(909,360)
(Loss)/Gain arising on change in fair value of financial assets classified as held for trading		(9,733,110)	10,960,729
(Loss)/Profit before tax	5	(13,364,919)	8,719,383
Income tax expense	6	(502,042)	(61,578)
(Loss)/Profit and total comprehensive (expense)/income for the period attributable to owners of the Company		(13,866,961)	8,657,805
Dividends	7	–	–
(Loss)/Earnings per share – Basic and diluted (HK cents per share)	8	(1.25)	2.92

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 September 2011

	Share capital HK\$	Share premium HK\$	Share options reserve HK\$	Accumulated losses HK\$	Total equity attributable to owners of the Company HK\$
Balance as at 1 July 2011	55,416,745	296,335,047	837,295	(63,274,500)	289,314,587
Loss and total comprehensive expense for the period	-	-	-	(13,866,961)	(13,866,961)
Balance as at 30 September 2011	<u>55,416,745</u>	<u>296,335,047</u>	<u>837,295</u>	<u>(77,141,461)</u>	<u>275,447,626</u>

For the three months ended 30 September 2010

	Share capital HK\$	Share premium HK\$	Share options reserve HK\$	Accumulated losses HK\$	Total equity attributable to owners of the Company HK\$
Balance as 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 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 as 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>

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 holdings.

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 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 investment 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 2011.

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 2011. 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:

	For the three months ended 30 September	
	2011	2010
	HK\$	HK\$
Provision of diagnostic testing and healthcare services, manufacturing and sale of pharmaceutical products	6,118,740	596,481
Provision of advertising and public relations services	7,338,370	–
Property investment	1,465,179	648,018
	<hr/> 14,922,289 <hr/>	<hr/> 1,244,499 <hr/>

4. OTHER INCOME

	For the three months ended 30 September	
	2011	2010
	HK\$	HK\$
Interest income	39,494	7,359
Dividend income from listed investments	8,000	10,960
Sundry income	261,370	–
	<hr/> 308,864 <hr/>	<hr/> 18,319 <hr/>

5. (LOSS)/PROFIT BEFORE TAX

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

	For the three months ended 30 September	
	2011	2010
	HK\$	HK\$
Depreciation of property, plant and equipment	553,123	136,636
Cost of inventories sold	1,834,584	–

6. INCOME TAX EXPENSE

	For the three months ended 30 September	
	2011	2010
	HK\$	HK\$
Current tax:		
Hong Kong Profits Tax	502,042	61,578

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

There was no material unprovided deferred taxation for the three months ended 30 September 2011 (2010: Nil).

7. DIVIDENDS

The Board does not recommend the payment of dividend for the three months ended 30 September 2011 (2010: Nil).

8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic loss per share for the three months ended 30 September 2011 was based on the unaudited loss attributable to owners of the Company of HK\$13,866,961 (2010: Profit of HK\$8,657,805) and the weighted average number of 1,108,334,892 (2010: 296,213,153) shares in issue.

The calculation of diluted loss and earnings per share for the three months ended 30 September 2011 and 2010 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the three months ended 30 September 2011 (the "Period"), the Group recorded a significant increase in revenue of about 12 times to approximately HK\$14,922,000 as compared with the corresponding period in 2010. The Group also recorded a gross profit of approximately HK\$8,203,000 for the Period, representing an increase of 683.76% as compared with that of the corresponding period in 2010.

Advertising and Public Relations Business

Since the acquisition of PR ASIA Consultants Limited ("PR ASIA") in January 2011, PR ASIA has provided a steady income source for the Group. PR ASIA provides strategic consulting services in corporate communications, media relations, investor relations, issue/crisis management, media training and event management to a wide range of clients in Hong Kong. Recently, PR ASIA has also been involved with a number of IPO projects and has attracted clients outside of Hong Kong.

With a growing reputation in the public relations industry, the client base of PR ASIA is expanding. For the Period, the Group's provision of advertising and public relations business achieved revenue of approximately HK\$7,338,000, which accounted for 49.18% of the Group's total revenue.

Assets Investment

On 15 August 2011, the Group completed its acquisition of a property for non-residential use located at Flat K, 9th Floor, Champion Building, Nos. 301-309 Nathan Road, Kowloon, Hong Kong at a consideration of HK\$15,500,000. Such investment is expected to deliver stable rental income and bring valuation gains for the Group.

For the Period, the Group recorded rental income generated by the investment properties of approximately HK\$1,465,000, representing an increase of 126.10% as compared with that of the corresponding period in 2010.

Given the fluctuation of the global financial market, the Group recorded a loss arising on change in fair value of financial assets classified as held for trading of approximately HK\$9,733,000 for the Period. However, the Group has a strong cash position and no bank borrowing. The Board believes that the financial position of the Group remains solid.

Manufacturing and Sale of Pharmaceutical Product Business

For the Period, the provision of diagnostic testing and healthcare services, manufacturing and sale of pharmaceutical products recorded revenue of approximately HK\$6,119,000, which accounted for 41% of the Group's total revenue. Nevertheless, the Group has foreseen the challenges to be faced ahead in relation to the new licensing requirement and keep reviewing the development strategy in this segment.

Outlook

Looking forward, in view of the economic outlook is still subject to various uncertainties, global and local markets are expected to be volatile. The Group will maintain its prudent investment strategy to seek potential investment opportunities in order to protect the interest of our shareholders.

However, the Group remains cautiously optimistic about the prospect of the advertising and public relations field in Hong Kong and China and we believe that Hong Kong and China's advertising and public relations industry will continuously grow and generate great returns for the Group.

Equipped with a strong cash position, the Group will also continuously identify potential investment opportunities in various fields to broaden and diversify our income stream aiming to enhance the Group's profitability and shareholders' value in the long run.

Financial Review

For the Period, the Group recorded revenue of approximately HK\$14,922,000, representing a significant increase of 1,099.06% as compared with the corresponding period in 2010.

Loss attributable to owners of the Company for the Period was approximately HK\$13,867,000 (2010: Profit of approximately HK\$8,658,000). Such loss was mainly due to a loss arising on change in fair value of financial assets classified as held for trading.

Basic loss per share was HK1.25 cents as compared with the basic earnings per share of HK2.92 cents in the corresponding period in 2010.

OTHER INFORMATION

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

As at 30 September 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 shares held	Approximate % of the Company's issued share capital as at 30 September 2011
Mr. Chow Kai Wah, Gary	Beneficial owner	18,000	0.00%

Save as disclosed above, as at 30 September 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 30 September 2011, 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.

As at 30 September 2011, there were no outstanding share options granted by the Company pursuant to the Share Option Scheme. No share options were granted, exercised, cancelled or lapsed during the Period.

2. Pursuant to an agreement dated 8 August 2002 entered into between the Company and The Chinese University of Hong Kong (the "Chinese University") 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 Period are as follows:

Date of grant	Exercise period	Exercise price per share HK\$	Number of share options			
			Outstanding as at 1 July 2011	Granted during the Period	Exercised/ Cancelled/ Lapsed during the Period	Outstanding as at 30 September 2011
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 Period 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

During the Period, 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 or had or might have any conflicts of interest with the Group.

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 Period.

Compliance with Code of Conduct for Securities Transactions by Directors

The Company has adopted the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct of the Company regarding securities transactions by the Directors. 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 Period.

Code on Corporate Governance Practices

The Company endeavours in maintaining good standard of corporate governance for the enhancement of shareholders' value. The Company has applied the principles of and 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 Period.

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.

At the time when the Board approved this report, the Audit Committee comprised three independent non-executive Directors, namely Mr. Chan Yip Man, Norman, Mr. Leung Chi Kin and Mr. Hui Sin Kwong. 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 Period, has been reviewed by such Audit Committee.

Mr. Tam B Ray Billy was appointed as an independent non-executive Director and a member of the Audit Committee whilst Mr. Hui Sin Kwong retired as an independent non-executive Director and ceased to be a member of the Audit Committee with effect from the conclusion of the annual general meeting of the Company held on 10 November 2011 (the "AGM"). With effect from the conclusion of the AGM, the Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Yip Man, Norman, Mr. Leung Chi Kin and Mr. Tam B Ray Billy.

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

Hong Kong, 10 November 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. Leung Chi Kin and Mr. Tam B Ray Billy.