



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)

Interim Report

2011/2012



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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. Li Wai Hung (*Chairman*)

Mr. Chen Liang (*Chief Executive Officer*)
(*appointed on 28 December 2011*)

Mr. Chow Kai Wah, Gary

Mr. Bai Jian

(*appointed on 28 December 2011*)

Ms. Wu Mei Chu

(*retired with effect from 10 November 2011*)

Mr. U Man long

(*resigned with effect from 22 November 2011*)

Independent Non-executive Directors

Mr. Chan Yip Man, Norman

Mr. Leung Chi Kin

Mr. Tam B Ray, Billy

(*appointed on 10 November 2011*)

Mr. Chi Chi Hung, Kenneth

(*appointed on 28 December 2011*)

Mr. Hui Sin Kwong

(*retired with effect from 10 November 2011*)

AUDIT COMMITTEE

Mr. Chan Yip Man, Norman (*Chairman*)

Mr. Leung Chi Kin

Mr. Tam B Ray, Billy

Mr. Chi Chi Hung, Kenneth

REMUNERATION COMMITTEE

Mr. Chow Kai Wah, Gary (*Chairman*)

Mr. Chan Yip Man, Norman

Mr. Leung Chi Kin

COMPANY SECRETARY

Mr. Luk Chi Shing

AUTHORISED REPRESENTATIVES

Mr. Chow Kai Wah, Gary

Mr. Luk Chi Shing

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 1101-2, 11th Floor

Euro Trade Centre

13-14 Connaught Road Central

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

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 2011:

- Revenue amounted to approximately HK\$28,630,000, representing a sizeable increase of 225.43% as compared with that of the corresponding period in 2010.
- Loss attributable to owners of the Company amounted to approximately HK\$21,299,000 (2010: HK\$1,227,000). Such loss was mainly due to a loss arising on change in fair value of financial assets classified as held for trading.

As at 31 December 2011:

- The Group had cash and bank balances of approximately HK\$45,893,000 (30 June 2011: HK\$68,900,000). Net current assets amounted to approximately HK\$71,690,000 (30 June 2011: HK\$109,698,000).
- Current ratio (defined as total current assets divided by total current liabilities) was 7.60 times (30 June 2011: 8.37 times). Gearing ratio, expressed as a percentage of total liabilities over total assets was 0.05 (30 June 2011: 0.06).

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2011 (2010: Nil).

INTERIM 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 and six months ended 31 December 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 six months ended 31 December 2011

	Notes	Three months ended 31 December		Six months ended 31 December	
		2011 (Unaudited) HK\$	2010 (Unaudited) HK\$	2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Revenue	3	13,707,657	7,553,118	28,629,946	8,797,617
Cost of sales and services provided		(8,773,851)	(3,946,722)	(15,493,234)	(4,144,610)
Gross profit		4,933,806	3,606,396	13,136,712	4,653,007
Other income	5	288,366	39,669	597,230	57,988
Selling and distribution expenses		(1,673,576)	(1,254,764)	(3,808,228)	(1,254,764)
Administrative expenses		(8,477,771)	(3,625,327)	(17,379,926)	(6,022,243)
Other operating expenses		(1,137,212)	(1,191,472)	(2,243,984)	(2,100,832)
(Loss)/Gain arising on change in fair value of financial assets classified as held for trading		(1,309,357)	(7,437,352)	(11,042,467)	3,523,377
Loss before tax	6	(7,375,744)	(9,862,850)	(20,740,663)	(1,143,467)
Income tax expense	7	(56,715)	(21,572)	(558,757)	(83,150)
Loss and total comprehensive expense for the period attributable to owners of the Company		(7,432,459)	(9,884,422)	(21,299,420)	(1,226,617)
Dividends	8	-	-	-	-
Loss per share	9				
- Basic and diluted (HK cents per share)		(0.67)	(1.90)	(1.92)	(0.30)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011 and 30 June 2011

	Notes	As at 31 December 2011 (Unaudited) HK\$	As at 30 June 2011 (Audited) HK\$
Non-current assets			
Property, plant and equipment		8,054,070	7,440,295
Investment properties		165,334,250	149,240,000
Goodwill		26,261,838	26,261,838
		199,650,158	182,942,133
Current assets			
Trade and other receivables	10	21,906,831	20,261,683
Held-for-trading investments		8,719,820	30,086,292
Inventories		6,025,835	5,335,280
Cash and bank balances		45,893,193	68,900,061
		82,545,679	124,583,316
Current liabilities			
Trade and other payables	11	10,101,126	13,325,753
Tax payable		754,196	1,559,761
		10,855,322	14,885,514
Net current assets		71,690,357	109,697,802
Total assets less current liabilities		271,340,515	292,639,935
Non-current liabilities			
Deferred tax liabilities		3,325,348	3,325,348
Nets assets		268,015,167	289,314,587
Capital and reserves			
Share capital		55,416,745	55,416,745
Reserves		212,598,422	233,897,842
Total equity attributable to owners of the Company		268,015,167	289,314,587

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2011

	Reserves					Total HK\$
	Share capital HK\$	Share premium HK\$	Share options reserve HK\$	Accumulated losses HK\$	Sub-total of reserves HK\$	
Balance as at 1 July 2011 (Audited)	55,416,745	296,335,047	837,295	(63,274,500)	233,897,842	289,314,587
Loss and total comprehensive expenses for the period	-	-	-	(21,299,420)	(21,299,420)	(21,299,420)
Balance as at 31 December 2011 (Unaudited)	55,416,745	296,335,047	837,295	(84,573,920)	212,598,422	268,015,167

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2011

Six months ended
31 December

	2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Net cash used in operating activities	(15,680,650)	(10,159,857)
Net cash used in investing activities	(7,326,218)	(24,813,005)
Net cash generated from financing activities	–	67,301,663
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(23,006,868)	32,328,801
Cash and cash equivalents at beginning of period	68,900,061	42,972,539
	<hr/>	<hr/>
Cash and cash equivalents at end of period	45,893,193	75,301,340
	<hr/>	<hr/>
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	45,893,193	75,301,340
	<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 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 financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the 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 investment 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 2011.

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 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 unaudited condensed consolidated financial statements and amounts reported for the current and prior periods.

The Group has not early adopted the new and 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 the new and revised HKFRS but is not yet in a position to reasonably estimate whether the 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, property investment and other business. An analysis of the Group's revenue for the period is as follows:

	Three months ended 31 December		Six months ended 31 December	
	2011 HK\$	2010 HK\$	2011 HK\$	2010 HK\$
Provision of diagnostic testing and healthcare services, manufacturing and sale of pharmaceutical products	5,361,290	6,940,759	11,480,030	7,537,240
Provision of advertising and public relations services	6,723,009	–	14,061,379	–
Property investment	1,513,358	612,359	2,978,537	1,260,377
Others	110,000	–	110,000	–
	<u>13,707,657</u>	<u>7,553,118</u>	<u>28,629,946</u>	<u>8,797,617</u>

4. SEGMENT INFORMATION

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

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

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 2011

	Provision of diagnostic testing and healthcare services, manufacturing and sale of pharmaceutical products HK\$	Provision of advertising and public relations services HK\$	Property investment HK\$	Research and development HK\$	Others HK\$	Total HK\$
Segment revenue	11,480,030	14,061,379	2,978,537	-	110,000	28,629,946
Segment results	(7,708,180)	1,042,241	2,486,016	-	(3,132,184)	(7,312,107)
Other income						597,230
Central administration costs						(2,983,319)
Loss arising on change in fair value of financial assets classified as held for trading						(11,042,467)
Loss before tax						(20,740,663)
Income tax expense						(558,757)
Loss for the period						(21,299,420)

For the six months ended 31 December 2010

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

5. OTHER INCOME

	Three months ended 31 December		Six months ended 31 December	
	2011 HK\$	2010 HK\$	2011 HK\$	2010 HK\$
Interest income	83,454	10,537	122,948	17,896
Dividend income from listed investments	–	26,000	8,000	36,960
Sundry income	204,912	3,132	466,282	3,132
	288,366	39,669	597,230	57,988

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	Three months ended 31 December		Six months ended 31 December	
	2011 HK\$	2010 HK\$	2011 HK\$	2010 HK\$
Depreciation of property, plant and equipment	564,212	347,419	1,117,335	484,055
Cost of inventories sold	1,773,784	1,720,729	3,608,368	1,720,729

7. INCOME TAX EXPENSE

	Three months ended 31 December		Six months ended 31 December	
	2011 HK\$	2010 HK\$	2011 HK\$	2010 HK\$
Hong Kong Profits Tax	56,715	21,572	558,757	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 2011 (2010: Nil).

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2011 (2010: Nil).

9. LOSS PER SHARE

The calculation of the basic loss per share for the three months ended 31 December 2011 was based on the unaudited loss attributable to owners of the Company of HK\$7,432,459 (2010: HK\$9,884,422) and the weighted average number of 1,108,334,892 (2010: 519,695,762) shares in issue.

The calculation of the basic loss per share for the six months ended 31 December 2011 was based on the unaudited loss attributable to owners of the Company of HK\$21,299,420 (2010: HK\$1,226,617) and the weighted average number of 1,108,334,892 (2010: 407,954,457) shares in issue.

The calculation of diluted loss per share for the three months and six months ended 31 December 2011 and 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.

10. TRADE AND OTHER RECEIVABLES

	As at 31 December 2011 (Unaudited) HK\$	As at 30 June 2011 (Audited) HK\$
Trade receivables	8,496,675	8,318,655
Receivables arising from dealing in listed securities	19,702	13,932
Deposits paid	3,873,362	9,365,976
Prepayments	263,423	501,912
Other receivables	9,253,669	2,061,208
	<hr/> 21,906,831 <hr/>	<hr/> 20,261,683 <hr/>

The Group grants a credit period ranging from 30 to 60 days to its customers. The following is an aged analysis of trade receivables, presented based on the invoice date:

	As at 31 December 2011 (Unaudited) HK\$	As at 30 June 2011 (Audited) HK\$
0 – 30 days	4,057,963	3,745,732
31 – 60 days	1,382,327	2,263,530
61 – 90 days	1,385,506	868,409
Over 90 days	1,670,879	1,440,984
	<hr/> 8,496,675 <hr/>	<hr/> 8,318,655 <hr/>

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at as 31 December 2011 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

	As at 31 December 2011 (Unaudited) HK\$	As at 30 June 2011 (Audited) HK\$
Up to 90 days	2,883,763	3,218,430
91 – 180 days	271,925	611,973
Over 180 days	1,283,024	742,520
	<hr/> 4,438,712 <hr/>	<hr/> 4,572,923 <hr/>

11. TRADE AND OTHER PAYABLES

	As at 31 December 2011 (Unaudited) HK\$	As at 30 June 2011 (Audited) HK\$
Trade payables	4,429,933	3,334,714
Other payables and accruals	4,492,183	8,858,889
Rental deposits received	1,179,010	1,132,150
	<u>10,101,126</u>	<u>13,325,753</u>

The average credit period on purchases of certain goods is 30 days. The following is an aged analysis of trade payables based on the invoice date:

	As at 31 December 2011 (Unaudited) HK\$	As at 30 June 2011 (Audited) HK\$
0 – 30 days	1,476,586	2,777,856
31 – 60 days	783,291	422,808
61 – 90 days	1,805,496	4,038
Over 90 days	364,560	130,012
	<u>4,429,933</u>	<u>3,334,714</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 31 December 2011 (the "Period"), the Group recorded revenue of approximately HK\$28,630,000, representing a sizeable increase of 225.43% as compared with that of the corresponding period in 2010. The Group also recorded a gross profit of approximately HK\$13,137,000 for the Period, representing an increase of 182.33% 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 early 2011, PR ASIA has been a steady source of income for the Group. As Asia's hub for finance and technology, Hong Kong continues to achieve dramatic expansion in its role as a regional leader, thus, the public relations industry is growing concurrently. As a rapidly-evolving sector, the public relations industry has prospect for growth. We continuously watch diversified opportunities to further promote the branding of PR ASIA in Hong Kong and China.

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 listed companies in Hong Kong. Recently, PR ASIA has also been involved with a number of IPO projects and has attracted clients outside of Hong Kong.

As a result of its growing reputation in the industry, the client base of PR ASIA is expanding for the Period. For the Period, the Group's provision of advertising and public relations services achieved revenue of approximately HK\$14,061,000, which accounted for 49.11% of the Group's total revenue.

Assets Investment

For the Period, the Group recorded rental income generated by the investment properties of approximately HK\$2,979,000, representing an increase of 136.32% as compared with that of the corresponding period in 2010. Our investment property portfolio is expected to deliver stable income and being valuation gains for the Group.

Due to the recent global economic downturn, the Group recorded a loss arising on change in fair value of financial assets classified as held for trading of approximately HK\$11,042,000 for the Period. With that being said, the Group remains to hold a strong cash position and has no bank borrowing.

Manufacturing and Sale of Pharmaceutical Products Business

With a higher awareness for health, the Group believes that the pharmaceutical business has substantial development. Nevertheless, we continue to review the development strategy with respect to the new licensing requirement in this business. For the Period, the provision of diagnostic testing and healthcare services, manufacturing and sale of pharmaceutical products recorded revenue of approximately HK\$11,480,000, representing an increase of 52.31% as compared to that with the corresponding period in 2010.

Outlook

The European debt problems, U.S. quantitative easing measures together with the Middle East political issues are expected to pose challenges to the global economy in 2012.

With various external factors exerting the influence, some degree of instability is to be anticipated, but we expect Hong Kong's economy is relatively stable, and to continue benefiting from China's development and growth, we are certain that the advertising and public relations business will continue to enjoy steady growth. As the global economy and investment climate remain positive, the Group has the capabilities to meet the challenges and will maintain our prudent investment strategies and focus our efforts on grasping valuable investment opportunities ahead to enhance our current investment portfolio to generate substantial returns for the Group.

Financial Review

For the Period, the Group recorded revenue of approximately HK\$28,630,000, representing a sizeable increase of 225.43% as compared with that of the corresponding period in 2010.

Gross profit for the Period was approximately HK\$13,137,000, an increase of 182.33% as compared with that of the corresponding period in 2010.

Basic loss per share for the Period was HK1.92 cents (2010: HK0.30 cents).

Loss attributable to owners of the Company for the Period was approximately HK\$21,299,000 (2010: HK\$1,227,000). Such loss was mainly due to a loss arising on change in fair value of financial assets classified as held for trading.

Liquidity and Financial Resources

As at 31 December 2011, the Group held cash and bank balances of approximately HK\$45,893,000 (30 June 2011: HK\$68,900,000). Net current assets amounted to approximately HK\$71,690,000 (30 June 2011: HK\$109,698,000).

As at 31 December 2011, current ratio (defined as total current assets divided by total current liabilities) was 7.60 times (30 June 2011: 8.37 times). Gearing ratio, expressed as a percentage of total liabilities over total assets was 0.05 (30 June 2011: 0.06).

The Group had no bank borrowing as at 31 December 2011 (30 June 2011: Nil).

Capital Structure

As at 31 December 2011, total equity attributable to owners of the Company was approximately HK\$268,015,000 (30 June 2011: HK\$289,315,000).

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 was conducted and recorded in Hong Kong dollars during the Period.

Contingent Liabilities

As at 31 December 2011, the Group had no significant contingent liabilities.

Capital Commitment

As at 31 December 2011, the Group had no significant capital commitment.

Charges

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

Save as disclosed above, as at 31 December 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 December 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, have contributed to the Group from time to time to take up options to subscribe for shares of the Company.

As at 31 December 2011, there was no outstanding share option available to subscribe for shares of the Company under the Share Option Scheme. No share option was 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	Number of share options				
		Exercise price per share HK\$	Outstanding as at 1 July 2011	Granted during the Period	Exercised/ Cancelled/ Lapsed during the Period	Outstanding as at 31 December 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.

Employees and Remuneration Policies

As at 31 December 2011, there were approximately 123 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 employees 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

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.

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.

As at 31 December 2011, the Remuneration Committee comprised 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 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.

The Audit Committee comprises four independent non-executive Directors, namely Mr. Chan Yip Man, Norman, Mr. Leung Chi Kin, Mr. Tam B Ray, Billy and Mr. Chi Chi Hung, Kenneth. 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 the Audit Committee.

Change in Information of Directors

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the changes in information of the Directors since the date of the annual report of the Company for the year ended 30 June 2011 are set out below:

Name of Director	Details of Changes
Mr. Li Wai Hung	Redesignated as the chairman of the Company with effect from 22 November 2011 The amount of monthly emolument of the Company has been changed to HK\$20,000 with effect from October 2011
Mr. Chow Kai Wah, Gary	The total amount of monthly emolument of the Group has been changed to HK\$72,000 with effect from October 2011
Mr. Chen Liang	Appointed as executive Director and chief executive officer of the Company with effect from 28 December 2011
Mr. Bai Jian	Appointed as executive Director with effect from 28 December 2011
Ms. Wu Mei Chu	Retired as executive Director with effect from 10 November 2011
Mr. U Man long	Resigned as executive Director and the chairman of the Company with effect from 22 November 2011

Mr. Tam B Ray, Billy	Appointed as independent non-executive Director with effect from 10 November 2011
Mr. Chi Chi Hung, Kenneth	Appointed as independent non-executive Director with effect from 28 December 2011
Mr. Hui Sin Kwong	Retired as independent non-executive Director with effect from 10 November 2011

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

Hong Kong, 9 February 2012

As at the date of this report, the executive Directors are Mr. Li Wai Hung, Mr. Chen Liang, Mr. Chow Kai Wah, Gary and Mr. Bai Jian; and the independent non-executive Directors are Mr. Chan Yip Man, Norman, Mr. Leung Chi Kin, Mr. Tam B Ray, Billy and Mr. Chi Chi Hung, Kenneth.