



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)

Third Quarterly Report

2012



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 nine months ended 31 March 2012:

- Revenue amounted to approximately HK\$43,181,000 (2011: HK\$24,387,000), representing an increase of 77.07% as compared with that of the corresponding period in 2011.
- Loss attributable to owners of the Company amounted to approximately HK\$27,476,000 (2011: Profit of HK\$3,571,000). Such loss was mainly due to losses arising on (i) change in fair value of financial assets classified as held for trading; and (ii) increases in administrative and operating expenses of the Group.

The Board does not recommend the payment of a dividend for the nine months ended 31 March 2012 (2011: Nil).

THIRD QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the "Board") of the Company announces herewith the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 31 March 2012, together with the comparative unaudited figures for the corresponding periods in 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 31 March 2012

	Notes	Three months ended 31 March		Nine months ended 31 March	
		2012 (Unaudited) HK\$	2011 (Unaudited) HK\$	2012 (Unaudited) HK\$	2011 (Unaudited) HK\$
Revenue	3	14,551,257	15,589,279	43,181,203	24,386,896
Cost of sales and services provided		(7,465,509)	(8,419,306)	(22,958,743)	(12,563,916)
Gross profit		7,085,748	7,169,973	20,222,460	11,822,980
Other income	4	28,796	25,746	626,026	83,734
Selling and distribution expenses		(1,492,610)	(1,398,014)	(5,300,838)	(2,652,778)
Administrative expenses		(9,283,600)	(7,237,950)	(26,663,526)	(13,260,193)
Other operating expenses		(2,728,952)	(1,064,770)	(4,972,936)	(3,165,602)
Gain/(Loss) arising on change in fair value of financial assets classified as held for trading		337,700	7,649,995	(10,704,767)	11,173,372
(Loss)/Profit before tax	5	(6,052,918)	5,144,980	(26,793,581)	4,001,513
Income tax expense	6	(124,124)	(347,296)	(682,881)	(430,446)
(Loss)/Profit and total comprehensive (expense)/income for the period attributable to owners of the Company		(6,177,042)	4,797,684	(27,476,462)	3,571,067
Dividends	7	-	-	-	-
(Loss)/Earnings per share	8				
- Basic and diluted (HK cents per share)		(0.56)	0.69	(2.48)	0.71

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 March 2012

	Share capital HK\$	Share premium HK\$	Share options reserves HK\$	Accumulated losses HK\$	Total equity attributable to owners of the Company HK\$
Balance as at 1 July 2011 (Audited)	55,416,745	296,335,047	837,295	(63,274,500)	289,314,587
Loss and total comprehensive expense for the period	-	-	-	(27,476,462)	(27,476,462)
Balance as at 31 March 2012 (Unaudited)	55,416,745	296,335,047	837,295	(90,750,962)	261,838,125

For the nine months ended 31 March 2011

	Share capital HK\$	Share premium HK\$	Share options reserves HK\$	Accumulated losses HK\$	Total equity attributable to owners of the Company HK\$
Balance as at 1 July 2010 (Audited)	12,961,745	190,974,986	6,392,043	(64,385,815)	145,942,959
Profit and total comprehensive income for the period	-	-	-	3,571,067	3,571,067
Issue of new shares upon placements	42,455,000	105,360,061	-	-	147,815,061
Transfer of reserve upon lapse of share options	-	-	(5,554,748)	5,554,748	-
Balance as at 31 March 2011 (Unaudited)	55,416,745	296,335,047	837,295	(55,260,000)	297,329,087

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENT:

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/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/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	
	2012	2011	2012	2011
	HK\$	HK\$	HK\$	HK\$
Provision of diagnostic testing and healthcare services, manufacturing and sale of pharmaceutical products	7,796,352	10,360,024	19,276,382	17,897,264
Provision of advertising and public relations services	4,935,675	4,236,727	18,997,054	4,236,727
Property investment	1,499,230	992,528	4,477,767	2,252,905
Others	320,000	–	430,000	–
	14,551,257	15,589,279	43,181,203	24,386,896

4. OTHER INCOME

	Three months ended		Nine months ended	
	31 March		31 March	
	2012	2011	2012	2011
	HK\$	HK\$	HK\$	HK\$
Interest income	18,842	9,217	141,790	27,113
Dividend income from listed investments	–	2,400	8,000	39,360
Sundry income	9,954	14,129	476,236	17,261
	28,796	25,746	626,026	83,734

5. (LOSS)/PROFIT BEFORE TAX

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

	Three months ended 31 March		Nine months ended 31 March	
	2012 HK\$	2011 HK\$	2012 HK\$	2011 HK\$
Depreciation of property, plant and equipment	647,571	352,973	1,764,906	837,028
Cost of inventories sold	<u>2,958,029</u>	<u>3,577,537</u>	<u>6,566,397</u>	<u>5,298,266</u>

6. INCOME TAX EXPENSE

	Three months ended 31 March		Nine months ended 31 March	
	2012 HK\$	2011 HK\$	2012 HK\$	2011 HK\$
Current tax: Hong Kong	<u>124,124</u>	<u>347,296</u>	<u>682,881</u>	<u>430,446</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 2012 (2011: Nil).

7. DIVIDENDS

The Board does not recommend the payment of a dividend for the nine months ended 31 March 2012 (2011: Nil).

8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic loss per share for the three months ended 31 March 2012 was based on the unaudited loss attributable to owners of the Company of HK\$6,177,042 (2011: Profit of HK\$4,797,684) and the weighted average number of 1,108,334,892 (2011: 692,537,114) shares in issue.

The calculation of the basic loss per share for the nine months ended 31 March 2012 was based on the unaudited loss attributable to owners of the Company of HK\$27,476,462 (2011: Profit of HK\$3,571,067) and the weighted average number of 1,108,334,892 (2011: 501,430,512) shares in issue.



The calculation of diluted earnings/loss per share for the three months and nine months ended 31 March 2011 and 2012 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.

9. POST BALANCE SHEET EVENT

On 23 April 2012, a sales and purchase agreement (the "SP Agreement") was entered into between Fairy Empire Investment Limited (the "Vendor"), a direct wholly-owned subsidiary of the Company, and Ms. Zee Helen (the "Purchaser"), whereas the Vendor has agreed to sell and the Purchaser has agreed to purchase, the 100% equity interest in Fairy Global Investment Limited ("Fairy Global"), and the outstanding amount of approximately HK\$30,024,000 owing by Fairy Global to the Vendor, at an aggregate consideration of HK\$22,500,000. Details of the SP Agreement have been included in the announcement of the Company dated 23 April 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the nine months ended 31 March 2012 (the "Period"), the Group recorded revenue of approximately HK\$43,181,000, representing an increase of 77.07% compared with that of the corresponding period in 2011. The Group also recorded a gross profit of approximately HK\$20,222,000 for the Period, representing an increase of 71.04% as compared with that of the corresponding period last year.

Advertising and Public Relations Business

The Group's expansion of its advertising and public relations business began with the acquisition of PR ASIA Consultants Limited ("PR ASIA") in early 2011. As Asia's leading 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. And with a growing reputation and presence in Hong Kong's public relations industry, PR ASIA continues to provide the Group with a steady source of income.

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 both in Hong Kong and China. For the Period, the Group's provision of advertising and public relations services achieved revenue of approximately HK\$18,997,000, which accounted for 43.99% of the Group's total revenue.

Assets Investment

For the Period, the Group recorded rental income generated by the investment properties of approximately HK\$4,478,000, representing a substantial increase of 98.76% as compared with that of the corresponding period in 2011. The Group continues to benefit from Hong Kong's prosperous property market as our investment portfolio is expected to deliver stable income and bring valuation gains for the Group.

Due to the uncertainties surrounding the global economy, the Group recorded a loss from change in fair value of financial assets classified as held for trading of approximately HK\$10,705,000 for the Period. With that being said, the Group remains to hold a strong cash position and has no bank borrowing.

Manufacturing and Selling Pharmaceutical Products Business

With a stronger sense and awareness for healthy living, the Group believes that there will be considerable growth in the demands and needs of pharmaceutical products. During the Period, the Group's manufacturing and sale of pharmaceutical products recorded revenue of approximately HK\$19,062,000, which accounted for 44.14% of the Group's total revenue.

Outlook

As the European debt crisis and other uncertainties glooms over the global economy, we believe that there will be various challenges to the global economy in 2012. However, with China's 12th Five-Year Plan (2011-2015) emphasizing Hong Kong's role as a center of international finance, the Group believes Hong Kong's economy is well supported by China's infrastructure and will continue to benefit from its development and growth. The Group is also enthusiastic about Asia's growing public relations industry, and we are certain that our advertising and public relations business will continue to enjoy steady returns.

Looking forward, we are certain that our business segments across investment, advertising and public relations, together with the pharmaceutical sector would continue to enjoy steady growth and generate substantial returns for the Group. The Group will seek new business opportunities with good potential to further strengthen and diversify our current investment portfolio and enhance the Group's income stream continuously.

Financial Review

For the Period, the Group recorded revenue of approximately HK\$43,181,000, representing an increase of 77.07% as compared with that of the corresponding period in 2011.

Loss attributable to owners of the Company for the Period was approximately HK\$27,476,000 (2011: Profit of HK\$3,571,000). Such loss was mainly due to losses arising on (i) change in fair value of financial assets classified as held for trading; and (ii) increases in administrative and operating expenses of the Group.

Basic loss per share was HK2.48 cents as compared with the basic earnings per share of HK0.71 cents in the corresponding period in 2011.

Open Offer

Pursuant to an underwriting agreement entered into between the Company and Kingston Securities Limited (the "Underwriter") on 28 February 2012, the Company would raise approximately HK\$38.8 million before expenses by way of an open offer of not less than 554,167,446 offer shares of the Company (the "Offer Share(s)") and not more than 554,274,003 Offer Shares, at a price of HK\$0.07 per Offer Share on the basis of one Offer Share for every two existing shares of the Company ("Shares") held on the record date, being 21 March 2012 (the "Open Offer"). The Open Offer was completed in April 2012.

OTHER INFORMATION

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

As at 31 March 2012, 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 March 2012
Mr. Chow Kai Wah, Gary	Beneficial owner	18,000	0.0%

Save as disclosed above, as at 31 March 2012, 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

Name of shareholders	Capacity	Number of underlying Shares held	Approximate % of the Company's issued share capital (as enlarged by the issue of the Offer Shares) as at 31 March 2012
The Underwriter	Beneficial owner	554,274,003	33.3%
Mrs. Chu Yuet Wah (<i>Note</i>)	Interest of a controlled corporation	554,274,003	33.3%

Note: Pursuant to the Underwriting Agreement entered into between the Underwriter and the Company on 28 February 2012, an open offer of a maximum of 554,274,003 Offer Shares at HK\$0.07 per Offer Share on the basis of one Offer Share for every two existing Shares held on the record date (i.e. 21 March 2012) was fully underwritten by the Underwriter.

The Underwriter is wholly owned by Galaxy Sky Investments Limited, which in turn is wholly owned by Kingston Capital Asia Limited. The latter is wholly owned by Kingston Financial Group Limited, which is in turn owned as to 40.48% by Active Dynamic Limited, which is in turn wholly owned by Mrs. Chu Yuet Wah. Mrs. Chu Yuet Wah is therefore deemed to be interested in the 554,274,003 Shares held by the Underwriter under the SFO.

Save as disclosed above, as at 31 March 2012, 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, have contributed to the Group from time to time to take up options to subscribe for shares of the Company.

As at 31 March 2012, there was no outstanding share option available to subscribe for shares of the Company under the Share Option Scheme. No share options 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 (Note) HK\$	Outstanding as at 1 July 2011	Granted during the Period	Exercised/ Cancelled/ Lapsed during the Period	Outstanding as at 31 March 2012 (Note)
27 June 2008	27 December 2008 to 26 June 2013	6.10	213,114	-	-	213,114

Note: As a result of completion of the Open Offer in April 2012, the exercise price and the number of Shares to be issued upon exercise of the outstanding options have been adjusted to HK\$4.966 per share and 261,778 options respectively, in accordance and in compliance with Chapter 23 of the GEM Listing Rules and its terms of the options.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the headings "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Options" in this report, at no time during the 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.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chi Hung, Kenneth (appointed as chairman of the Audit Committee since 29 March 2012), Mr. Leung Chi Kin and Mr. Tam B Ray, Billy.

This report, including the Group's unaudited condensed consolidated financial statements for the three months and nine months ended 31 March 2012, has been reviewed by the Audit Committee.

Suspension of Trading

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 4 May 2012, pending the release of an announcement relating to a notifiable transaction and the placings of shares and convertible notes.

By order of the Board

China Natural Investment Company Limited

Chen Liang

Executive Director

Hong Kong, 9 May 2012

As at the date of this report, the Board comprises seven Directors, of which four are executive Directors namely, Mr. Li Wai Hung, Mr. Chen Liang, Mr. Chow Kai Wah, Gary and Mr. Bai Jian; and three are independent non-executive Directors namely, Mr. Leung Chi Kin, Mr. Tam B Ray, Billy and Mr. Chi Chi Hung, Kenneth.