



**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*

*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 three months ended 30 September 2012:

- Revenue amounted to approximately HK\$12,655,000, representing a decrease of 15.19% as compared to that of the corresponding period in 2011.
- Profit attributable to owners of the Company amounted to approximately HK\$7,071,000 (2011: Loss of approximately HK\$13,867,000). Such profit was mainly due to gains arising on changes in fair values of investment properties and held-for-trading investments.

The Board does not recommend the payment of a dividend for the three months ended 30 September 2012 (2011: Nil).

## FIRST QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 30 September 2012, together with the comparative unaudited figures for the corresponding period in 2011 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 September 2012

		<b>For the three months ended 30 September</b>	
		<b>2012 (Unaudited) HK\$</b>	2011 (Unaudited) HK\$
Revenue	3	<b>12,655,108</b>	14,922,289
Cost of sales and services provided		<b>(7,411,510)</b>	(6,719,383)
Gross profit		<b>5,243,598</b>	8,202,906
Other income	4	<b>443,541</b>	308,864
Selling and distribution expenses		<b>(1,331,209)</b>	(2,134,652)
Administrative expenses		<b>(8,084,583)</b>	(8,902,155)
Other operating expenses		<b>(891,285)</b>	(1,106,772)
Gain/(Loss) arising on change in fair value of held-for-trading investments		<b>3,170,900</b>	(9,733,110)
Gain arising on change in fair value of investment properties		<b>8,650,000</b>	–
Profit/(Loss) before tax	5	<b>7,200,962</b>	(13,364,919)
Income tax expense	6	<b>(130,140)</b>	(502,042)
Profit/(Loss) and total comprehensive income/(expense) for the period attributable to owners of the Company		<b>7,070,822</b>	(13,866,961)
Dividends	7	–	–
Earnings/(Loss) per share	8		
– Basic and diluted (HK cents per share)		<b>0.43</b>	(1.25)

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 September 2012

	Share capital HK\$	Share premium HK\$	Share options reserves HK\$	Property revaluation reserve HK\$	Accumulated losses HK\$	Total equity attributable to owners of the Company HK\$
Balance at 1 July 2012 (Audited)	83,125,117	305,759,278	837,295	221,726	(76,805,646)	313,137,770
Profit and total comprehensive income for the period	-	-	-	-	7,070,822	7,070,822
Balance at 30 September 2012 (Unaudited)	83,125,117	305,759,278	837,295	221,726	(69,734,824)	320,208,592

For the three months ended 30 September 2011

	Share capital HK\$	Share premium HK\$	Share options reserves HK\$	Property revaluation reserve HK\$	Accumulated losses HK\$ (restated)	Total equity attributable to owners of the Company HK\$ (restated)
Balance at 1 July 2011 (Audited)	55,416,745	296,335,047	837,295	-	(60,624,373)	291,964,714
Loss and total comprehensive expense for the period	-	-	-	-	(13,866,961)	(13,866,961)
Balance at 30 September 2011 (Unaudited)	55,416,745	296,335,047	837,295	-	(74,491,334)	278,097,753

## **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 investments and investment properties 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 2012.

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 2012. Except as described below, 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 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 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.

### Amendments to HKAS 12 “Income Taxes” (applied in advance of their effective date)

The Group has applied amendments to HKAS 12 titled “Deferred Tax: Recovery of Underlying Assets” in advance of their effective date (annual periods beginning on or after 1 January 2012). Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment Property” are presumed to be recovered through sale for the purposes of measuring deferred tax, unless the presumption is rebutted in certain circumstances.

As a result, the Group’s investment properties that are measured using the fair value model have been presumed to be recovered through sale for the purpose of measuring deferred tax in respect of such properties. The application of the amendments has resulted in the Group’s accumulated loss as at 30 June 2011 and 1 July 2011 being reduced by HK\$2,650,127.

### 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	
	2012 HK\$	2011 HK\$
Provision of diagnostic testing and healthcare services, manufacturing and sale of pharmaceutical products	<b>5,946,810</b>	6,118,740
Provision of advertising and public relations services	<b>5,221,190</b>	7,338,370
Property investment	<b>1,487,108</b>	1,465,179
	<b>12,655,108</b>	14,922,289

### 4. OTHER INCOME

	For the three months ended 30 September	
	2012 HK\$	2011 HK\$
Interest income	<b>361,067</b>	39,494
Dividend income from listed investments	<b>39,100</b>	8,000
Sundry income	<b>43,374</b>	261,370
	<b>443,541</b>	308,864

## 5. PROFIT/(LOSS) BEFORE TAX

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

	For the three months ended 30 September	
	2012 HK\$	2011 HK\$
Depreciation of property, plant and equipment	385,861	553,123
Cost of inventories sold	<u>2,560,620</u>	<u>1,834,584</u>

## 6. INCOME TAX EXPENSE

	For the three months ended 30 September	
	2012 HK\$	2011 HK\$
Current tax:		
Hong Kong profit tax	<u>130,140</u>	<u>502,042</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 ended 30 September 2012 (2011: Nil).

## 7. DIVIDENDS

The Board does not recommend the payment of a dividend for the three months ended 30 September 2012 (2011: Nil).

## 8. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings per share for the three months ended 30 September 2012 was based on the unaudited profit attributable to owners of the Company of HK\$7,070,822 (2011: loss of HK\$13,866,961) and the weighted average number of 1,662,502,338 (2011: 1,108,334,892) shares in issue.

The calculation of diluted earnings and loss per share for the three months ended 30 September 2012 and 2011 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.



## **9. SIGNIFICANT INVESTMENTS, ACQUISITIONS, DISPOSALS AND OTHER EVENT DURING THE REPORTING PERIOD**

### **(a) Disposal of a subsidiary**

In July 2012, the Group disposed of its entire equity interest in Core Medical Technology Limited to an independent third party at a cash consideration of HK\$360,000.

### **(b) Acquisition of an investment property**

In August 2012, the Group acquired an investment property situated in Hong Kong from an independent third party at a cash consideration of HK\$6,600,000.

### **(c) Proposed very substantial disposal and very substantial acquisition (“Transactions”)**

On 9 September 2012, the Company announced that a sale and purchase agreement (the “SP Agreement”) dated 7 September 2012 was entered into between Chemosino International Limited (“CN BVI”) (a direct wholly-owned subsidiary of the Company), as vendor, and Town Health Asset Management Limited (“TH Property Holding”), as purchaser. Pursuant to the SP Agreement, CN BVI has conditionally agreed to sell and TH Property Holding has conditionally agreed to acquire the entire issued share capital of Million Worldwide Investment Limited, a company wholly owned by CN BVI, at a consideration of HK\$195,000,000 which will be satisfied by the allotment and issue of new shares in the capital of TH Property Holding (the “Consideration Shares”) by TH Property Holding to CN BVI upon the completion of the aforesaid disposal. Immediately after the said completion, CN BVI will in turn own 25% of the issued share capital of TH Property Holding as enlarged by the issue of the Consideration Shares. The Transactions constitute a very substantial disposal and a very substantial acquisition on the part of the Company under the GEM Listing Rules, and have not been completed as of the date of publication of these financial statements.

### **(d) Proposed issuance of convertible notes and placing shares**

On 30 July 2012, the Company announced that ordinary resolutions were duly passed by the Company’s shareholders at an extraordinary general meeting held on 30 July 2012, approving inter alia (i) the proposed issuance of convertible notes for a maximum principal amount of HK\$100,000,000 pursuant to a placing agreement dated 9 May 2012; and (ii) the proposed issuance of placing shares for a maximum amount of HK\$50,000,000 pursuant to a placing agreement dated 9 May 2012. The issuance of the aforesaid convertible notes and placing shares has not been completed as of the date of publication of these financial statements.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the three months ended 30 September 2012 (the "Period"), the Group recorded a revenue of approximately HK\$12,655,000 and gross profit of approximately HK\$5,244,000.

### Advertising and Public Relations Business


Being one of Asia's hubs in the finance sector, Hong Kong continues to expand its role as an influential leader, therefore, the public relations industry is growing concurrently.

For the Period, the Group's provisions of advertising and public relations services achieved a revenue of approximately HK\$5,221,000, which is accounted for 41.26% of the Group's total revenue. The revenue showed a decrease of 28.85% compared to the corresponding period last year. The main reason of the aforesaid decline was the decrease of the project-based income during the Period. This business segment continues to provide the Group with a steady income and the Group would strengthen this business segment at the right time to widen its profitability.

### Assets Investment

For the Period, the Group recorded a stable increase in rental income generated by the investment properties of approximately HK\$1,487,000. The Hong Kong property market has been supported by economic and demographic fundamentals. In order to invest in a larger portfolio of the property investment in Hong Kong, on 7 September 2012, the Group's wholly-owned subsidiary, Chemosino International Limited ("CN BVI"), entered into a sale and purchase agreement with Town Health Asset Management Limited ("TH Property Holding") which is an indirect wholly-owned subsidiary of Town Health International Investments Limited (collectively referred to as "TH Group") pursuant to which CN BVI has conditionally agreed to sell, and TH Property Holding has conditionally agreed to acquire, the entire issued share capital of a group of companies wholly owned by CN BVI ("CN Property Group") at the consideration of HK\$195 million which will be satisfied by the allotment and issue of new shares by TH Property Holding to CN BVI. Immediately after the completion of the aforesaid transaction, CN Property Group will become wholly-owned subsidiaries of TH Property Holding which will be in turn owned as to 25% by CN BVI ("Joint Venture").

The Group believes that the Joint Venture will be benefited from sharing the profits of the enlarged property investment group which will be managed by the professional and experienced asset management team of TH Group. The enhanced network and potential investment opportunities are expected to bring better return to the Group.



Hong Kong stocks showed volatility. However, leveraging on favourable strategies, the Group was able to achieve business growth against adversities. The Group recorded a gain on change in fair value of held-for-trading investments of approximately HK\$3,171,000 for the Period. The Group will cautiously monitor its investment portfolio's performance from time to time.

### **Manufacturing and Selling of Pharmaceutical Product Business**

During the Period, the Group's pharmaceutical business recorded its revenue of approximately HK\$5,947,000 generated from the manufacturing and sale of pharmaceutical products, accounting for 46.99% of the Group's total revenue. The public's demand for medicine is on a path of continuous growth. The demand is driven by the expanding population, especially rapidly aging group and rising standard of living in Hong Kong. The Group will continue to review the development strategy to the new licensing requirement for the operations of a Good Manufacturing Practice certified factory in Hong Kong.

### **Outlook**

With global economic conditions remaining volatile, the year ahead is expected to remain uncertain. The Group remains positive but prudent about on the prospects for its business and operating conditions. The Group maintains a conservative approach to investing and continues to evaluate investment opportunities. The opportunities offered to the Group will far outweigh the challenges ahead. The Group will continue to appropriately manage risks and expenses in the dynamic market to deliver long-term value to the Company and our shareholders.

### **Financial Review**

For the Period, the Group recorded revenue of approximately HK\$12,655,000, representing a decrease of 15.19% as compared with the corresponding period in 2011.

Profit attributable to owners of the Company for the Period was approximately HK\$7,071,000 (2011: Loss of approximately HK\$13,867,000). Such profit was mainly due to gains arising on changes in fair values of investment properties and held-for-trading investments.

Basic earnings per share was HK0.43 cents as compared with the basic loss per share of HK1.25 cents in the corresponding period in 2011.

## OTHER INFORMATION

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

As at 30 September 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 Securities and Futures Ordinance (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 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, 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 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 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 three months ended 30 September 2012 are as follows:

<b>Date of grant</b>	<b>Exercise period</b>	<b>Exercise price per share</b> <i>(Note)</i> HK\$	<b>Outstanding as at 1 July 2012, and 30 September 2012</b> <i>(Note)</i>
27 June 2008	27 December 2008 to 26 June 2013	<u>4.966</u>	<u>261,778</u>

*Note:* The exercise price and outstanding number of options have been adjusted for the share consolidation which became effective on 6 August 2009, the share consolidation which became effective on 21 January 2010 and adjusted for the open offer which became effective on 18 April 2012.

### **Directors' Rights to Acquire Shares or Debentures**

Save as disclosed under the heading "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**

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 Period.

### **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 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 confirmed to the Company that they 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 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 reportings and internal control procedures.

As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely Mr. Chi Chi Hung, Kenneth (the chairman of the Audit Committee), Mr. Leung Chi Kin and Mr. Tam B Ray, Billy.

This report, including the Group's unaudited condensed consolidated financial statements for the Period, has been reviewed by the Audit Committee.

By Order of the Board  
**China Natural Investment Company Limited**  
**Chen Liang**  
*Chief Executive Officer*

Hong Kong, 9 November 2012

*As at the date of this report, the Board comprises (i) three executive Directors namely, Mr. Li Wai Hung, Mr. Chen Liang, and Mr. Bai Jian; and (ii) three independent non-executive Directors namely, Mr. Leung Chi Kin, Mr. Tam B Ray, Billy and Mr. Chi Chi Hung, Kenneth.*