



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

2012/2013



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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*)
Mr. Bai Jian
Mr. Chen Youhua
Ms. Xiong Yun Huan

Independent Non-Executive Directors

Mr. Tam B Ray, Billy
Mr. Chi Chi Hung, Kenneth
Mr. Yan Shengxian

AUDIT COMMITTEE

Mr. Chi Chi Hung, Kenneth (*Chairman*)
Mr. Tam B Ray, Billy
Mr. Yan Shengxian

REMUNERATION COMMITTEE

Mr. Tam B Ray, Billy (*Chairman*)
Mr. Chi Chi Hung, Kenneth
Mr. Yan Shengxian

NOMINATION COMMITTEE

Mr. Tam B Ray, Billy (*Chairman*)
Mr. Chi Chi Hung, Kenneth
Mr. Yan Shengxian

COMPANY SECRETARY

Mr. Luk Chi Shing

AUTHORISED REPRESENTATIVES

Mr. Li Wai Hung
Mr. Luk Chi Shing

COMPLIANCE OFFICER

Mr. Chen Liang

REGISTERED OFFICE

PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1903, 19th Floor
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

AUDITORS

HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants
31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

PRINCIPAL BANKERS

Dah Sing Bank Limited
Hang Seng 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 2012:

- Revenue from continuing operations amounted to approximately HK\$21,704,000 (2011: HK\$25,443,000), representing a decrease of approximately 14.70% as compared with that of the corresponding period in 2011. During the period, the Group has disposed Core Medical Technology Limited, Million Worldwide Investment Limited and its subsidiaries. Core Medical Technology Limited and Million Worldwide Group have been principally engaged in research and development and property investment business respectively.
- Profit attributable to owners of the Company amounted to approximately HK\$123,000 (2011: loss of approximately HK\$21,299,000). The significant improvement was mainly due to the gains on changes in the fair value of held-for-trading investments and investment properties during the current period.

As at 31 December 2012:

- The Group had cash and cash equivalents of approximately HK\$157,490,000 (30 June 2012: HK\$32,847,000). Net current assets amounted to approximately HK\$249,337,000 (30 June 2012: HK\$103,314,000).
- Current ratio (defined as total current assets divided by total current liabilities) was approximately 47.70 times (30 June 2012: 12.54 times). Gearing ratio, expressed as a percentage of total liabilities over total assets was approximately 15.96% (30 June 2012: 3.13%).

The Board does not recommend the payment of interim dividend for the six months ended 31 December 2012 (2011: 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 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 six months ended 31 December 2012

| | Notes | Three months ended 31 December | | Six months ended 31 December | |
|--|-------|-----------------------------------|-----------------------------|---------------------------------|-----------------------------|
| | | 2012 (Unaudited) HK\$ | 2011 (Unaudited) HK\$ | 2012 (Unaudited) HK\$ | 2011 (Unaudited) HK\$ |
| Continuing operations | | | | | |
| Revenue | 3 | 10,535,714 | 12,154,712 | 21,703,714 | 25,443,027 |
| Cost of sales and services provided | | (5,946,975) | (8,598,592) | (13,270,056) | (15,103,386) |
| Gross profit | | 4,588,739 | 3,556,120 | 8,433,658 | 10,339,641 |
| Other income | 5 | 441,792 | 287,783 | 844,346 | 577,647 |
| Selling and distribution expenses | | (544,427) | (1,673,576) | (1,875,636) | (3,808,228) |
| Administrative expenses | | (6,984,576) | (6,489,859) | (14,034,597) | (13,963,188) |
| Other operating expenses | | (450,273) | (893,021) | (992,243) | (1,491,937) |
| Share of results of an associate | | 12,098 | – | 12,098 | – |
| Finance cost | 7 | (680,401) | – | (680,401) | – |
| Gain/(loss) arising on change in fair value of held-for-trading investments | | 289,850 | 77,503 | 3,460,750 | (2,218,907) |
| Loss arising on change in fair value of early redemption option embedded in convertible note issued by the Company | | (3,406,000) | – | (3,406,000) | – |
| Loss before tax | 6 | (6,733,198) | (5,135,050) | (8,238,025) | (10,564,972) |
| Income tax (expense)/credit | 8 | (176,470) | 29,638 | (185,819) | (386,642) |
| Loss for the period from continuing operations | | (6,909,668) | (5,105,412) | (8,423,844) | (10,951,614) |
| Discontinued operation | | | | | |
| (Loss)/profit for the period from discontinued operation | 9 | (38,250) | (2,327,047) | 8,546,748 | (10,347,806) |
| (Loss)/profit and total comprehensive (expense)/income for the period attributable to owners of the Company | | (6,947,918) | (7,432,459) | 122,904 | (21,299,420) |
| Dividends | 10 | – | – | – | – |
| (Loss)/earnings per share | 11 | | | | |
| From continuing and discontinued operations | | | | | |
| – Basic and diluted (HK cents per share) | | (0.35) | (0.67) | 0.01 | (1.92) |
| From continuing operations | | | | | |
| – Basic and diluted (HK cents per share) | | (0.35) | (0.46) | (0.46) | (0.99) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012 and 30 June 2012

| | Notes | As at 31 December 2012 (Unaudited) HK\$ | As at 30 June 2012 (Audited) HK\$ |
|--|-------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | 4,360,881 | 5,420,227 |
| Investment properties | | – | 183,300,000 |
| Goodwill | 12 | 22,261,838 | 22,261,838 |
| Interest in an associate | | 202,068,047 | – |
| | | 228,690,766 | 210,982,065 |
| Current assets | | | |
| Inventories | | 5,537,463 | 6,515,295 |
| Trade and other receivables | 13 | 46,403,446 | 46,807,972 |
| Held-for-trading investments | | 29,242,850 | 25,906,100 |
| Early redemption option embedded in convertible note issued by the Company | | 15,854,000 | – |
| Tax recoverable | | 148,029 | 193,221 |
| Cash and cash equivalents | | 157,490,062 | 32,846,867 |
| | | 254,675,850 | 112,269,455 |
| Current liabilities | | | |
| Trade and other payables | 14 | 5,338,862 | 8,955,004 |
| Net current assets | | | |
| | | 249,336,988 | 103,314,451 |
| Total assets less current liabilities | | | |
| | | 478,027,754 | 314,296,516 |
| Non-current liabilities | | | |
| Convertible bonds | | 71,770,342 | – |
| Deferred tax liabilities | | 46,707 | 1,158,746 |
| | | 71,817,049 | 1,158,746 |
| Net assets | | | |
| | | 406,210,705 | 313,137,770 |
| Capital and reserves | | | |
| Share capital | 15 | 133,125,117 | 83,125,117 |
| Reserves | | 273,085,588 | 230,012,653 |
| Total equity attributable to owners of the Company | | | |
| | | 406,210,705 | 313,137,770 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2012

| | Reserves | | | | | | | Total HK\$ |
|--|--------------------------|--------------------------|-------------------------------------|--|---|-------------------------------|----------------------------------|---------------|
| | Share capital HK\$ | Share premium HK\$ | Share options reserve HK\$ | Property revaluation reserve HK\$ | Convertible note equity reserve HK\$ | Accumulated losses HK\$ | Sub-total of reserves HK\$ | |
| Balance as at 1 July 2012 (Audited) | 83,125,117 | 305,759,278 | 837,295 | 221,726 | - | (76,805,646) | 230,012,653 | 313,137,770 |
| Profit and total comprehensive income for the period | - | - | - | - | - | 122,904 | 122,904 | 122,904 |
| Issue of new shares by way of placing | 50,000,000 | - | - | - | - | - | - | 50,000,000 |
| Transaction costs attributable to issue of new shares | - | (1,876,250) | - | - | - | - | (1,876,250) | (1,876,250) |
| Disposal of subsidiaries | - | - | - | (221,726) | - | - | (221,726) | (221,726) |
| Recognition of equity component of convertible note | - | - | - | - | 45,048,007 | - | 45,048,007 | 45,048,007 |
| Balance as at 31 December 2012 (Unaudited) | 133,125,117 | 303,883,028 | 837,295 | - | 45,048,007 | (76,682,742) | 273,085,588 | 406,210,705 |

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 | (60,624,373) | 236,547,969 | 291,964,714 | |
| 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 | (81,923,793) | 215,248,549 | 270,665,294 | |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2012

| | Six months ended 31 December | |
|--|---|--------------|
| | 2012 | 2011 |
| | (Unaudited) | (Unaudited) |
| | HK\$ | HK\$ |
| Net cash generated from/(used in) operating activities | 4,909,206 | (15,680,650) |
| Net cash used in investing activities | (24,763,510) | (7,326,218) |
| Net cash generated from financing activities | 144,497,499 | – |
| | 124,643,195 | (23,006,868) |
| Net increase/(decrease) in cash and cash equivalents | 32,846,867 | 68,900,061 |
| Cash and cash equivalents at beginning of period | | |
| | 157,490,062 | 45,893,193 |
| Cash and cash equivalents at end of period | | |
| | 12,700,474 | 45,893,193 |
| Analysis of the balances of cash and cash equivalents: | | |
| Bank balances and cash | 144,789,588 | – |
| Fixed deposits placed with a security broker | | |
| | 157,490,062 | 45,893,193 |

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 manufacturing and sale of pharmaceutical products, investment holding and provision of advertising and public relations services.

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 ("HKAS") 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 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 2012.

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 2012. 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 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 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 | |
|--|-----------------------------------|-----------------------------|---------------------------------|-----------------------------|
| | 2012 (Unaudited) HK\$ | 2011 (Unaudited) HK\$ | 2012 (Unaudited) HK\$ | 2011 (Unaudited) HK\$ |
| Continuing operations | | | | |
| Provision of diagnostic testing and healthcare services, manufacturing and sale of pharmaceutical products | 5,671,329 | 5,321,703 | 11,618,139 | 11,271,648 |
| Provision of advertising and public relations services | 4,864,385 | 6,723,009 | 10,085,575 | 14,061,379 |
| Others | – | 110,000 | – | 110,000 |
| | 10,535,714 | 12,154,712 | 21,703,714 | 25,443,027 |

4. SEGMENT INFORMATION

Information reported to the Board of the Company, being the chief operating decision maker for the purposes of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided. 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
- Others

Two operations (property investment and research and development) were discontinued during the current period. The segment information presented as below does not include any amounts for this discontinued operation, which are described in more detail in Note 9.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

Continuing operations

For the six months ended 31 December 2012

| | Manufacturing and sale of pharmaceutical products (Unaudited) HK\$ | Provision of advertising and public relations services (Unaudited) HK\$ | Total (Unaudited) HK\$ |
|--|---|--|---------------------------------------|
| Segment revenue | <u>11,618,139</u> | <u>10,085,575</u> | <u>21,703,714</u> |
| Segment results | <u>(3,267,139)</u> | <u>1,126,176</u> | <u>(2,140,963)</u> |
| Other income | | | 802,127 |
| Central administration costs | | | (6,285,636) |
| Gain arising on change in fair value of held-for-trading investments | | | 3,460,750 |
| Loss arising on change in fair value of early redemption option embedded in convertible note issued by the Company | | | (3,406,000) |
| Finance cost | | | (680,401) |
| Share of results of an associate | | | <u>12,098</u> |
| Loss before tax | | | <u>(8,238,025)</u> |
| Income tax expense | | | <u>(185,819)</u> |
| Loss for the period | | | <u>(8,423,844)</u> |

For the six months ended 31 December 2011

| | Provision of diagnostic testing and healthcare services, manufacturing and sale of pharmaceutical products <i>HK\$</i> | Provision of advertising and public relations services <i>HK\$</i> | Others <i>HK\$</i> | Total <i>HK\$</i> |
|---|--|--|-----------------------|----------------------|
| Segment revenue | <u>11,271,648</u> | <u>14,061,379</u> | <u>110,000</u> | <u>25,443,027</u> |
| Segment results | <u>(6,800,590)</u> | <u>1,042,241</u> | <u>(3,132,184)</u> | (8,890,533) |
| Other income | | | | 577,647 |
| Central administration costs | | | | (33,179) |
| Loss arising on change in fair value of held-for-trading investments | | | | <u>(2,218,907)</u> |
| Loss before tax | | | | (10,564,972) |
| Income tax expense | | | | <u>(386,642)</u> |
| Loss for the period | | | | <u>(10,951,614)</u> |

5. OTHER INCOME
Continuing operations

| | Three months ended 31 December | | Six months ended 31 December | |
|---|-----------------------------------|-----------------------------|---------------------------------|-----------------------------|
| | 2012 (Unaudited) HK\$ | 2011 (Unaudited) HK\$ | 2012 (Unaudited) HK\$ | 2011 (Unaudited) HK\$ |
| Interest income | 422,274 | 82,871 | 783,152 | 111,365 |
| Dividend income from listed investments | 18,975 | – | 18,975 | – |
| Sundry income | 543 | 204,912 | 42,219 | 466,282 |
| | 441,792 | 287,783 | 844,346 | 577,647 |

6. LOSS BEFORE TAX

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

Continuing operations

| | Three months ended 31 December | | Six months ended 31 December | |
|--|-----------------------------------|-----------------------------|---------------------------------|-----------------------------|
| | 2012 (Unaudited) HK\$ | 2011 (Unaudited) HK\$ | 2012 (Unaudited) HK\$ | 2011 (Unaudited) HK\$ |
| Depreciation of property, plant and equipment | 362,701 | 485,098 | 721,321 | 982,394 |
| Cost of inventories expensed | 2,450,280 | 1,773,784 | 5,010,900 | 3,608,368 |

7. FINANCE COST

Continuing operations

| | Three months ended | | Six months ended | |
|--|--------------------|-------------|------------------|-------------|
| | 31 December | | 31 December | |
| | 2012 | 2011 | 2012 | 2011 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| Effective interest of convertible note issued by the Company | 680,401 | – | 680,401 | – |

8. INCOME TAX (EXPENSE)/CREDIT

Continuing operations

| | Three months ended | | Six months ended | |
|--|--------------------|-------------|------------------|-------------|
| | 31 December | | 31 December | |
| | 2012 | 2011 | 2012 | 2011 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| Hong Kong profits tax (expense)/credit | (176,470) | 29,638 | (185,819) | (386,642) |

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the period.

There was no material unprovided deferred taxation for the three months and six months ended 31 December 2012 (2011: Nil).

9. DISCONTINUED OPERATION

On 7 September 2012, Chemosino International Limited (“Chemosino”) and Town Health Asset Management Limited entered into a sale and purchase agreement in relation to the entire issued capital of Million Worldwide Investment Limited (“Million Worldwide”), a wholly-owned subsidiary of the Company. The consideration will be satisfied by the allotment and issue of 225 new ordinary shares of HK\$1.00 each in the issued share capital of Town Health Asset Management Limited to Chemosino upon completion. Million Worldwide (together with its subsidiaries, the “Million Worldwide Group”) carried out all of the Group’s property investment business. The deemed disposal and acquisition was completed on 10 December 2012. Immediately after completion, each company in the Million Worldwide Group ceased to be a subsidiary of the Company.

During the six months ended 31 December 2012, profit for the period from discontinued operation was mainly attributable to the gain arising on change in fair value of investment properties. The results of the discontinued operation included in the condensed consolidated statement of comprehensive income and condensed consolidated statement of cash flows are set out below.

| | Three months ended | | Six months ended | |
|--|--------------------|-------------|--------------------|--------------|
| | 31 December | | 31 December | |
| | 2012 | 2011 | 2012 | 2011 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| (Loss)/profit for the period from discontinued operation | | | | |
| Revenue | 1,033,175 | 1,552,945 | 2,520,283 | 3,186,919 |
| Cost of services provided | (59,957) | (175,259) | (148,386) | (389,848) |
| Other income | 681 | 583 | 41,668 | 19,583 |
| Administrative expenses | (792,977) | (1,987,912) | (1,827,539) | (3,416,738) |
| Other operating expenses | (219,172) | (244,191) | (568,487) | (752,047) |
| Loss arising on change in fair value of held-for-trading investments | - | (1,386,860) | - | (8,823,560) |
| Gain arising on change in fair value of investment properties | - | - | 8,650,000 | - |
| (Loss)/profit before tax | (38,250) | (2,240,694) | 8,667,539 | (10,175,691) |
| Income tax expense | - | (86,353) | (120,791) | (172,115) |
| (Loss)/profit for the period from discontinued operation | (38,250) | (2,327,047) | 8,546,748 | (10,347,806) |

(Loss)/profit for the period from discontinued operation has been arrived at after charging:

Depreciation of property, plant and equipment

| Three months ended 31 December | | Six months ended 31 December | |
|-----------------------------------|-----------------------------|---------------------------------|-----------------------------|
| 2012 (Unaudited) HK\$ | 2011 (Unaudited) HK\$ | 2012 (Unaudited) HK\$ | 2011 (Unaudited) HK\$ |
| 18,161 | 79,114 | 45,402 | 134,941 |

Cash flows from discontinued operation

Net cash used in operating activities
 Net cash generated from investing activities
 Net cash generated from/(used in) financing activities

Net cash inflows/(outflows) for the period from discontinued operation

| Six months ended 31 December | |
|---------------------------------|-----------------------------|
| 2012 (Unaudited) HK\$ | 2011 (Unaudited) HK\$ |
| (4,509,367) | (25,126,462) |
| 1 | 11,375,180 |
| 5,473,515 | (12,475,541) |
| 964,149 | (26,226,823) |

10. DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 31 December 2012 (2011: Nil).

11. (LOSS)/EARNINGS PER SHARE

| | Three months ended | | Six months ended | |
|--|----------------------|---------------|----------------------|---------------|
| | 31 December | | 31 December | |
| | 2012 | 2011 | 2012 | 2011 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| From continuing and discontinued operations | | | | |
| (Loss)/profit and total comprehensive (expense)/ income for the period attributable to owners of the Company | (6,947,918) | (7,432,459) | 122,904 | (21,299,420) |
| Weighted average number of shares in issue Basic and diluted (HK cents per share) | 1,977,719,729 | 1,108,334,892 | 1,820,111,034 | 1,108,334,892 |
| | (0.35) | (0.67) | 0.01 | (1.92) |
| From continuing operations | | | | |
| Loss for the period from continuing operations | (6,909,668) | (5,105,412) | (8,423,844) | (10,951,614) |
| Weighted average number of shares in issue Basic and diluted (HK cents per share) | 1,977,719,729 | 1,108,334,892 | 1,820,111,034 | 1,108,334,892 |
| | (0.35) | (0.46) | (0.46) | (0.99) |

For the three months and six months ended 31 December 2012 and 2011, the computation of diluted (loss)/earnings per share from continuing operations and from continuing and discontinued operations did not consider the impact of the potential ordinary shares as the exercise price of the Company's outstanding share options was higher than the average market share price of the Company for the relevant periods and the conversion of the Company's outstanding convertible note would result in an anti-dilutive effect on the basic loss/earnings per share amounts presented.

12. GOODWILL

| | Cost | Impairment | Carrying |
|--|-------------------|---------------------|-------------------|
| | <i>HK\$</i> | <i>HK\$</i> | <i>amounts</i> |
| | | | <i>HK\$</i> |
| Acquisition of Island Kingdom Company Limited and its subsidiaries (<i>Note a</i>) | 7,125,121 | (7,125,121) | – |
| Acquisition of PR Asia Consultants Limited (<i>Note b</i>) | <u>26,261,838</u> | <u>(4,000,000)</u> | <u>22,261,838</u> |
| Balances as at 30 June 2012 (Audited) and 31 December 2012 (Unaudited) | <u>33,386,959</u> | <u>(11,125,121)</u> | <u>22,261,838</u> |

Impairment testing on goodwill

For the purposes of impairment testing, goodwill was allocated to two cash-generating units representing (i) Island Kingdom Company Limited and its subsidiaries ("Island Kingdom Group") which are principally engaged in the manufacturing and sales of pharmaceutical products; and (ii) PR Asia Consultants Limited ("PR ASIA") which is engaged in the provision of public relations services.

The impairment testing was carried out by management based on the value-in-use calculations.

Note:

- (a) The cash flow projections for Island Kingdom Group was prepared and projected based on the actual latest financial information of Island Kingdom Group. As a result of (i) Island Kingdom Group recorded a loss of approximately HK\$4.0 million for the eight months ended 30 June 2011; and (ii) the continuously increase in cost of its production and operation especially labour cost, materials cost and rental, these reasons led to the decrease in the recoverable amount of the cash generating unit under the value-in-use calculation using cash flow projections based on financial budget covering a five-year period and the recognition of impairment loss of approximately HK\$7.1 million on the goodwill arising from the acquisition of Island Kingdom Group for the year ended 30 June 2011.

- (b) The cash flow projections for PR ASIA was prepared and projected based on the actual latest financial information of PR ASIA. As a result of (i) the increase in overall operating expenses from approximately HK\$8.0 million for the twelve months ended 30 June 2011 to approximately HK\$16.6 million for the twelve months ended 30 June 2012; and (ii) the decrease in the profit before tax from approximately HK\$11.3 million for the twelve months ended 30 June 2011 to approximately HK\$2.4 million for the twelve months ended 30 June 2012, these reasons led to the decrease in the recoverable amount of the cash generating unit under the value-in-use calculation using cash flow projections based on financial budget covering a five-year period and the recognition of impairment loss of HK\$4.0 million on the goodwill arising from the acquisition of PR ASIA for the year ended 30 June 2012.

13. TRADE AND OTHER RECEIVABLES

| | As at 31 December 2012 (Unaudited) HK\$ | As at 30 June 2012 (Audited) HK\$ |
|---|--|---|
| Trade receivables | 6,515,195 | 6,890,681 |
| Receivables arising from dealing in listed securities | 161,398 | 839,565 |
| Deposit paid in respect of a proposed acquisition | 23,000,000 | 23,000,000 |
| Other deposits paid | 3,116,832 | 2,873,724 |
| Prepayments | 1,593,911 | 791,169 |
| Loan receivable | 11,728,186 | 12,000,000 |
| Other receivables | 287,924 | 412,833 |
| | 46,403,446 | 46,807,972 |

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 2012 (Unaudited) HK\$ | As at 30 June 2012 (Audited) HK\$ |
|--------------|--|---|
| 0 – 30 days | 3,506,069 | 3,936,169 |
| 31 – 60 days | 854,598 | 1,544,481 |
| 61 – 90 days | 1,234,267 | 460,633 |
| Over 90 days | 920,261 | 949,398 |
| | <u>6,515,195</u> | <u>6,890,681</u> |

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due as at 31 December 2012 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 2012 (Unaudited) HK\$ | As at 30 June 2012 (Audited) HK\$ |
|---------------|--|---|
| Up to 90 days | 1,517,395 | 924,805 |
| 91 – 180 days | 480,720 | 517,420 |
| Over 180 days | 439,541 | 542,379 |
| | <u>2,437,656</u> | <u>1,984,604</u> |

14. TRADE AND OTHER PAYABLES

| | As at 31 December 2012 (Unaudited) HK\$ | As at 30 June 2012 (Audited) HK\$ |
|-----------------------------|--|---|
| Trade payables | 2,709,371 | 4,385,135 |
| Other payables and accruals | 2,629,491 | 3,359,115 |
| Rental deposits received | – | 1,210,754 |
| | <u>5,338,862</u> | <u>8,955,004</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 2012 (Unaudited) HK\$ | As at 30 June 2012 (Audited) HK\$ |
|--------------|--|---|
| 0 – 30 days | 679,843 | 2,789,016 |
| 31 – 60 days | 800,673 | 489,700 |
| 61 – 90 days | 441,366 | 638,424 |
| Over 90 days | 787,489 | 467,995 |
| | <u>2,709,371</u> | <u>4,385,135</u> |

15. SHARE CAPITAL

Ordinary shares of HK\$0.05 each

Authorised:

At 30 June 2012 and
31 December 2012

Number of share HK\$

| | | |
|--|----------------|-------------|
| | 10,000,000,000 | 500,000,000 |
|--|----------------|-------------|

Issued and fully paid:

At 30 June 2012

| | | |
|--|---------------|------------|
| | 1,662,502,338 | 83,125,117 |
|--|---------------|------------|

Issue of 1,000,000,000 new shares of HK\$0.05 each at a price of HK\$0.05 per placing share by way of placing in December 2012 (*Note*)

| | | |
|--|---------------|------------|
| | 1,000,000,000 | 50,000,000 |
|--|---------------|------------|

At 31 December 2012

| | | |
|--|---------------|-------------|
| | 2,662,502,338 | 133,125,117 |
|--|---------------|-------------|

Note: On 30 July 2012, an ordinary resolution was duly passed by the shareholders at an extraordinary general meeting of the Company, approving, inter alia, the proposed issuance of placing shares for a maximum principal amount of HK\$50,000,000 pursuant to a placing agreement entered into between the Company and the placing agent on 9 May 2012. The issuance of the placing shares was completed on 3 December 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the six months ended 31 December 2012 (the "Period"), the Group recorded a revenue from continuing operations of approximately HK\$21,704,000 (2011: HK\$25,443,000) and gross profit of approximately HK\$8,434,000 (2011: HK\$10,340,000).

Advertising and Public Relations Business

Hong Kong continues to expand in its role as an influential leader in Asian financial market and therefore the demand for related public relations consultancy service is continually growing.

For the Period, the Group's provision of advertising and public relations services achieved a revenue of approximately HK\$10,086,000, which is accounted for 46.47% of the Group's total revenue. This business segment provides stable income to the Group with established brand and consolidated client base. Leveraging on the development strategies, the Group was able to achieve the continuous business growth and enhance profitability.

Under the sale and purchase agreement dated 24 November 2010 between one of the vendor and the Group, one of the vendor has irrevocably warranted and guaranteed to the Group that the audited net profit after tax and extraordinary or exceptional items will be not less than HK\$5.0 million for the financial year ending 31 December 2010 as referred to the circular of the Company dated 31 December 2010. The profit guarantee of HK\$5.0 million has been met.


Assets Investment

According to the circular of the Company dated 29 October 2012, the Group and Town Health Asset Management Limited ("TH Property Holding") have agreed to form a joint venture to consolidate each other's investment property portfolio so as to form a large property investment group, which can increase shareholder's value in long run.

It is the current intention of the Group that all its future property investment business will be carried out under the enlarged TH Property Holding and its subsidiaries ("TH Property Group"). After the disposal, rental income from the Group's property investment segment will cease to be a revenue generator of the Group. Instead, the Group will share the results of the enlarged TH Property Group after the disposal according to its shareholding in TH Property Holding.

Manufacturing and selling of pharmaceutical product business

During the Period, the Group's pharmaceutical business recorded its revenue of approximately HK\$11,618,000 in the manufacturing and sale of pharmaceutical products, accounting for 53.53%



of the Group's total revenue from its continuing operations. Rapidly aging population and rising standard of living in Hong Kong are two key factors to indicate that the pharmaceutical business shall still undergo stronger growth in the future. 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

The Hong Kong economy is expected to grow mildly in 2013, supported by public investment in infrastructure and relatively resilient domestic consumption. In light of the complex and challenging global economic environment in 2013, the Group still remains positive but prudent on the prospects for its business.

Apart from the solid foundation and growth potential on its core areas of operation, the Group will continue to look for other investment opportunities so as to expand the development portfolio of the Group in the future.

In the coming year, the Group will adopt a progressive, cautious and flexible operation strategy in core business, at the same time, strengthen its risk management, increasing the overall operational revenue and creating values for the Group's shareholders.

Financial review

For the Period, the Group recorded a revenue of HK\$21,704,000 (2011: HK\$25,443,000) from continuing operations, representing a decrease of 14.70% as compared with the corresponding period in 2011.

Gross profit for the Period from continuing operations was approximately HK\$8,434,000 (2011: HK\$10,340,000), representing a decrease of 18.43% compared with the corresponding period in 2011.

Basic earnings per share from continuing and discontinued operations for the Period was approximately HK0.01 cents (2011: loss per share of HK1.92 cents).

Profit attributable to owners of the Company for the Period was approximately HK\$123,000 (2011: loss of approximately HK\$21,299,000). The reason was mainly due to the gains arising from changes in fair values of held-for-trading investments and investment properties, which amounted to approximately HK\$3,461,000 and HK\$8,650,000 respectively during the Period, whereas, in the prior period, loss of approximately HK\$11,042,000 arising on change in fair value of held-for-trading investments was recorded.

Liquidity and financial resources

As at 31 December 2012, the Group held cash and cash equivalents of approximately HK\$157,490,000 (30 June 2012: HK\$32,847,000). Net current assets amounted to approximately HK\$249,337,000 (30 June 2012: HK\$103,314,000).

As at 31 December 2012, current ratio (defined as total current assets divided by total current liabilities) was approximately 47.70 times (30 June 2012: 12.54 times). Gearing ratio, expressed as a percentage of total liabilities over total assets was approximately 15.96% (30 June 2012: 3.13%).

The Group had no bank borrowing as at 31 December 2012 (30 June 2012: Nil).

Capital structure

As at 31 December 2012, total equity attributable to owners of the Company was approximately HK\$406,211,000 (30 June 2012: HK\$313,138,000).

Pursuant to a placing agreement entered into between the Company and the placing agent on 9 May 2012 and the ordinary resolution passed by the shareholders at an extraordinary general meeting of the Company on 30 July 2012, on 3 December 2012, the Company issued the zero coupon convertible note (the "Note") in the principal amount of HK\$100,000,000 due in 2015 with the maturity date falling on the date three years from the date of issue (i.e. on 2 December 2015). The holder of the Note can be able to convert the outstanding principal amount of the Note into ordinary share of the Company at an initial conversion price of HK\$0.05 per share (subject to adjustment) at any time from the date of issue of the Note. Details of information were set out in the Company's circular dated 7 July 2012 and announcement dated 15 May 2012.

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.

Significant investments and acquisitions

(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) ***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 would 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 was completed on 10 December 2012.

Contingent liabilities

As at 31 December 2012, the Group had no significant contingent liabilities.

Capital commitment

As at 31 December 2012, the Group had no significant capital commitment.

Charges

As at 31 December 2012, 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 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 31 December 2012, so far as was known to any director of the Company, persons who have an interest or a short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company pursuant to section 336 of the SFO were as follows:

Long positions in underlying shares of the Company

| Name of shareholder | Capacity | Number of underlying shares held | Approximate % to the issued share capital |
|---|-------------------|----------------------------------|---|
| Mr. Hu Zhixiong ("Mr. Hu") | Controlled entity | 2,000,000,000 (Note) | 75.12% |
| Tai Pu Mining International Co., Ltd ("Tai Pu") | Beneficial owner | 2,000,000,000 (Note) | 75.12% |

Note: These underlying shares represent the new shares to be issued upon conversion of the Note due 2015 by its holder, in the principal amount of HK\$100,000,000 at the initial conversion price of HK\$0.05 each per share (subject to adjustment). The entire issued capital of Tai Pu is wholly and beneficially owned by Mr. Hu.



Save as disclosed above, as at 31 December 2012 so far as was known to any director of the Company, no other persons had an interest or a short position in the shares, underlying shares or debenture of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

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 2012, there were no outstanding share options 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 | Exercise price per share (Note) HK\$ | Outstanding as at 1 July 2012, and 31 December 2012 (Note) |
|----------------------|----------------------------------|---|---|
| 27 June 2008 | 27 December 2008 to 26 June 2013 | 4.966 | 261,778 |

Note: The exercise price and outstanding number of options as at 1 July 2012 and 31 December 2012 were retrospectively 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 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 announcement, 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 2012, there were approximately 86 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.

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 Chi Hung, Kenneth, Mr. Tam B Ray, Billy and Mr. Yan Shengxian. Mr. Chi Chi Hung, Kenneth is the chairman of the Audit Committee since 29 March 2012.

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 2012 are set out below:

| Name of Directors | Details of Changes |
|--------------------------|---|
| Mr. Leung Chi Kin | Retired as an independent non-executive Director and member of the Nomination Committee, Audit Committee and Remuneration Committee of the Company, with effect from 26 November 2012 |
| Mr. Yan Shengxian | Appointed as an independent non-executive Director, and member of Nomination Committee, Audit Committee and Remuneration Committee of the Company, with effect from 26 November 2012. |
| Mr. Chen Youhua | Appointed as an executive Director, with effect from 26 November 2012 |
| Ms. Xiong Yun Huan | Appointed as an executive Director, with effect from 26 November 2012 |

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

5 February 2013

As at the date of this report, the Board comprises (i) five executive Directors namely, Mr. Li Wai Hung, Mr. Chen Liang, Mr. Bai Jian, Mr. Chen Youhua and Ms. Xiong Yun Huan; and (ii) three independent non-executive Directors namely, Mr. Tam B Ray, Billy, Mr. Chi Chi Hung, Kenneth and Mr. Yan Shengxian.