



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)

2014

First Quarterly Report

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high 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 of the Stock Exchange (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: (i) the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



FINANCIAL HIGHLIGHTS

For the three months ended 30 September 2014:

- Revenue amounted to approximately HK\$199,464,000 (2013: HK\$13,205,000), representing an increase of 1,410.5% as compared to that of the corresponding period in 2013. The substantial increase in revenue was mainly attributable to the natural resources related business in trading of other mineral products commenced from the first quarter of 2014.
- Loss for the Period amounted to approximately HK\$4,963,000 (2013: HK\$4,518,000). The loss was mainly due to higher administrative expenses and decreased share of results of associates.

The Board does not recommend the payment of a dividend for the three months ended 30 September 2014 (2013: Nil).

FIRST 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 (collectively referred to as the “Group”) for the three months ended 30 September 2014, together with the comparative unaudited figures for the corresponding period in 2013 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 30 September 2014

	Notes	For the three months ended 30 September	
		2014	2013
		(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	3	199,464	13,205
Cost of sales and services rendered		(190,993)	(9,725)
Gross profit		8,471	3,480
Other income	4	2,972	1,409
Selling and distribution expenses		(81)	(852)
Administrative expenses		(13,750)	(9,112)
Other operating expenses		(2,148)	(4,626)
Gain arising on change in fair value of held-for-trading investments		-	995
Share of results of associates		277	4,315
Loss before tax	5	(4,259)	(4,391)
Income tax expense	6	(704)	(127)
Loss for the period		(4,963)	(4,518)

**For the three months ended
30 September**

	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
<i>Notes</i>		
Other comprehensive income (expense) for the period, net of tax		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Exchange differences on translating foreign operations	<u>1,021</u>	<u>(2,166)</u>
Loss and total comprehensive expense for the period attributable to owners of the Company, net of tax	<u>(3,942)</u>	<u>(6,684)</u>
Loss per share		
8		
– Basic and diluted (HK cents per share)	<u>(0.10)</u>	<u>(0.10)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 September 2014

	Share capital HK\$'000	Share premium HK\$'000	Foreign currency translation reserve HK\$'000	Unlisted warrants reserve HK\$'000	Accumulated losses HK\$'000	Total equity attributable to owners of the Company HK\$'000
Balance at 1 July 2014 (Audited)	259,625	373,745	7,122	-	(67,620)	572,872
Loss for the period	-	-	-	-	(4,963)	(4,963)
Exchange differences on translation of foreign operations	-	-	1,021	-	-	1,021
Loss and total comprehensive expense for the period	-	-	1,021	-	(4,963)	(3,942)
Issue of unlisted warrants	-	-	-	9,700	-	9,700
Balance at 30 September 2014 (Unaudited)	259,625	373,745	8,143	9,700	(72,583)	578,630

For the three months ended 30 September 2013

	Share capital HK\$'000	Share premium HK\$'000	Foreign currency translation reserve HK\$'000	Accumulated losses HK\$'000	Total equity attributable to owners of the Company HK\$'000
Balance at 1 July 2013 (Audited)	233,125	303,778	(229)	(64,064)	472,610
Loss for the period	-	-	-	(4,518)	(4,518)
Exchange differences on translation of foreign operation	-	-	(2,166)	-	(2,166)
Loss and total comprehensive expense for the period	-	-	(2,166)	(4,518)	(6,684)
Balance at 30 September 2013 (Unaudited)	233,125	303,778	(2,395)	(68,582)	465,926

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 were principally engaged in the processing and trading of fluorite products, trading of other mineral products, provision of advertising and public relations services and manufacturing and sale of pharmaceutical products.

The Group entered into a sale and purchase agreement in October 2014 to dispose of its pharmaceutical business and disposal completion took place on 5 November 2014.

2. BASIS OF PREPARATION

These unaudited condensed consolidated results for the three months ended 30 September 2014 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 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 2014.

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 2014. 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.

3. REVENUE

The Group's revenue represents revenue arising from (i) processing and trading of fluorite products, (ii) trading of other mineral products, (iii) provision of advertising and public relations services and (iv) manufacturing and sale of pharmaceutical products. An analysis of the Group's revenue for the period is as follows:

	For the three months ended	
	30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Processing and trading of fluorite products	7,650	2,819
Trading of other mineral products	183,933	–
Provision of advertising and public relations services	7,402	6,338
Manufacturing and sale of pharmaceutical products	479	4,048
	<u>199,464</u>	<u>13,205</u>

4. OTHER INCOME

	For the three months ended	
	30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	1,062	436
Gain on disposal of held-for-trading investments	1,725	–
Sundry income	185	973
	<u>2,972</u>	<u>1,409</u>

5. LOSS BEFORE TAX

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

	For the three months ended	
	30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	1,065	730
Cost of inventories sold	<u>188,315</u>	<u>5,612</u>

6. INCOME TAX EXPENSE

	For the three months ended	
	30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current profits tax:		
- Hong Kong	419	127
- People's Republic of China ("PRC")	<u>285</u>	<u>-</u>
	<u>704</u>	<u>127</u>

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

Subsidiaries operating in the PRC are subject to PRC Enterprise Income Tax at 25% for both periods.

Profits of the subsidiary established in Mongolia are subject to Mongolian Economic Entity Income Tax ("EEIT"). Under the Law of Mongolia on EEIT, the tax rate of the Mongolian subsidiary was 10% for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

There was no material unprovided deferred taxation for the three months ended 30 September 2014 (2013: Nil).

7. DIVIDENDS

The Board does not recommend the payment of a dividend for the three months ended 30 September 2014 (2013: Nil).

8. LOSS PER SHARE

	Three months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company (HK\$'000)	(4,963)	(4,518)
Weighted average number of shares in issue	5,192,502,338	4,662,502,338
Basic and diluted loss per share (HK cents)	<u>(0.10)</u>	<u>(0.10)</u>

No adjustment has been made to the basic loss per share amounts presented for the periods ended 30 September 2014 in respect of a dilution as the impact of the unlisted warrants of the Company outstanding during the three months ended 30 September 2014, had anti-dilutive effect on the basic loss per share amounts presented.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the three months ended 30 September 2014 (the "Period"), the Group recorded revenue of approximately HK\$199,464,000 (2013: HK\$13,205,000), representing an increase of 1,410.5% as compared with that of the corresponding period in 2013. The substantial increase in revenue was mainly contributable to the natural resources related business in trading of other mineral products commenced from the first quarter of 2014. The gross profit for the Period was approximately HK\$8,471,000 (2013: HK\$3,480,000), representing an increase of 143.4% as compared with that of the corresponding period last year.

Loss for the Period amounted to approximately HK\$4,963,000 (2013: HK\$4,518,000). The loss was mainly due to higher administrative expenses and decreased share of results of associates.

Fluorite Processing and Trading Business

The Group had diversified into natural resources related business in the second half of 2013. The Group completed the acquisition of a fluorite processing and trading business located in Outer Mongolia, namely Sino-Mongolia Fluorspar Mining Co., Ltd (together with its subsidiary, the "Sino-Mongolia Group") on 31 July 2013, and the consolidated results of Sino-Mongolia Group have been consolidated to the Group's accounts with effect from 1 August 2013.

For the Period, the Group's fluorite processing and trading business recorded a revenue of approximately HK\$7,650,000, which accounted for 3.8% of the Group's total revenue.

On 23 September 2014, a supplemental deed was entered between the Group and the Vendors (as defined below) that, amongst others, (i) the Group were released from the obligation and liabilities of the contingent considerations as specified in the sales and purchase agreement entered into between the Group and Ms. Chen Yejun and Mr. Huang Tianhua (collectively, the "Vendors") on 7 May 2012 as detailed in the circular of the Group dated 28 June 2013, in relation to the acquisition of Sino-Mongolia Group and (ii) HK\$5,000,000 retained by the Group upon completion of the acquisition was agreed by the Vendors to settle the liabilities of Sino-Mongolia Group towards the third parties as at the date of completion.

Trading of Other Mineral Products

During the first quarter of 2014, the Group had set-up a business in the trading of mineral products other than fluorites in PRC, mainly zinc and aluminum ingots. The establishment of the trading of other mineral products would assist the Group to expand the sales network in the trading of fluorite products. The Group's trading of other mineral products recorded a revenue of approximately HK\$183,933,000, which accounted for 92.2% of the Group's total revenue for the Period.



Advertising and Public Relations Business

The Group provided advertising and public relations business through PR Asia Consultants Limited ("PR Asia"). For the Period, the Group's provision of advertising and public relations services recorded revenue of approximately HK\$7,402,000, which accounted for 3.7% of the Group's total revenue.

PR Asia devises and implements effective business and marketing strategies from a communication perspective for its clients, with a view to enabling them to successfully achieve brand-building and establish an appropriate image to the targeted customer base. It also provides training, through simulating different scenarios of TV and print media interviews, to its clients for different kinds of interviews, media conferences and promotion events to ensure that the key messages are communicated from its clients to the public. PR Asia has continued to experience steady growth and contribute stable source of income to the Group.

Manufacturing and Sale Pharmaceutical Products Business


During the Period, the Group's manufacturing and sales of pharmaceutical products recorded a revenue of approximately HK\$479,000, which accounted for 0.3% of the Group's total revenue.

The pharmaceutical industry in Hong Kong continues to be very challenging because of the increasing operating costs and fierce competition. In view of the unsatisfactory loss-making results of the business in previous years, Island Kingdom Company Limited ("Island Kingdom") (an indirect wholly-owned subsidiary of the Company), as vendor, and two independent third parties, as purchasers, entered into the Agreement in relation to the disposal of the entire issued share capital of Vida Laboratories Limited ("Vida") and the sales debt at the aggregate consideration of HK\$16,000,000 (subject to deductions in accordance with the terms and conditions of the Agreement) on 6 October 2014. The completion took place on 5 November 2014. After the completion, its financial results would not be consolidated to the Group's account.

Outlook

With effect from the second half of 2013, the Group has diversified into natural resources related business upon the completion of the acquisition of the Sino-Mongolia Group. The diversification of the Group's business into new areas of natural resources related business assists the Group broadening its revenue base. The current prospects for the natural resources related business remains positive although the expected economic growth in the PRC may slow down in the near future.

The advertising and public relation business is expected to be stable in the near future. It will continue a steady growth and contribute stable sources of income to the Group. However,



due to the increasing operating costs and fierce competition, the pharmaceutical business has incurred losses for the past few years. As it was not expected any turnaround of the operational results of pharmaceutical business in the near future, the Company decided to dispose of this business in October 2014 and completion of the disposal took place in November 2014. The disposal would provide the Group with a good opportunity to divest its investment in a loss recurring business and facilitate the Group to focus its effort on development of its natural resources related business.

Looking ahead, the Company will continue to look for good opportunities in the natural resources related business, which is expected to become a major revenue growth driver of the Group in the future.

Share Capital

As at 1 July 2014 and 30 September 2014, the authorized share capital of the Company was HK\$500,000,000 divided into 10,000,000,000 shares of HK\$0.05 each, and the issued share capital of the Company was approximately HK\$259,625,000 divided into 5,192,502,338 shares of HK\$0.05 each. There was no movement in the issued share capital of the Company during the Period.

Unlisted Warrants


On 5 September 2014, an aggregate of 1,000,000,000 warrants was fully placed and issued to not fewer than six placees at the issue price of HK\$0.01 per warrant in accordance with the terms and conditions of the placing agreement entered between the Company and Kingston Securities Limited. The holders of the warrants shall have the rights to subscribe for up to 1,000,000,000 shares in aggregate at an initial subscription price of HK\$0.25 per share, within one year from the date of issue. Upon exercise in full of the subscription rights attaching to the warrants, 1,000,000,000 shares of HK\$0.05 each will be allotted and issued by the Company. The details were set out in the Company's announcement dated 18 August 2014.

As at 30 September 2014, there were no shares issued upon the exercise of the subscription rights attaching to the warrants.

Possible Connected Acquisition

Memorandum of Understanding Relating to Possible Connected Acquisition

On 18 October 2013, the Company announced that a memorandum of understanding (the "MOU") was entered into between the Company and Mr. Hu Zhixiong ("Mr. Hu") who is the substantial shareholder of Ordos City Tai Pu Mining Engineering Company Limited ("Tai Pu"), in relation to the possible connected acquisition of not less than 51% of the issued share capital of Tai Pu (the "Possible Connected Acquisition"). Mr. Hu is a substantial shareholder of



Tai Pu and is also a substantial shareholder of the Company. Therefore, Mr. Hu is regarded as a connected person of the Company, and the Possible Connected Acquisition constitutes a connected transaction under Chapter 20 of the GEM Listing Rules.

The supplemental MOUs were entered between the Company and Mr. Hu to extend the due diligence period and exclusive period. The details were set out in the Company's announcements dated 17 April 2014, 30 May 2014 and 29 September 2014.

No formal sale and purchase agreement has yet been entered as at the date of this report.

Event After the Reporting Period

On 18 July 2014, the Company announced that a memorandum of understanding was entered into between Island Kingdom, as vendor, and an individual independent third party, as purchaser, in relation to the possible sale and purchase of the entire issued share capital of Vida, a company directly wholly owned by Island Kingdom, which is principally engaged in the manufacturing and sale of pharmaceutical products. On 6 October 2014, Island Kingdom and two independent third parties, as purchasers, entered into a sale and purchase agreement ("Agreement") in relation to dispose the entire issued share capital of Vida and the sales debt at the aggregate consideration of HK\$16,000,000 (subject to deductions in accordance with the terms and conditions of the Agreement). The completion took place on 5 November 2014.

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

As at 30 September 2014, 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 pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 September 2014, so far as is known to the Directors and the chief executive of the Company, the interests and short positions of the persons or corporations (other than the Directors and the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO; or who was directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group, were as follows:

Long position in ordinary shares of HK\$0.05 each of the Company

Name of Shareholders	Nature of interests	Number of shares held	Approximate percentage of shareholding
Tai Pu Mining International Co., Ltd ("Note")	Beneficial owner	1,300,000,000	25.04%
Mr. Hu ("Note")	Held by controlled entity	1,300,000,000	25.04%
Mr. Hu ("Note")	Beneficial owner	38,400,000	0.74%

Note: Tai Pu Mining International Co., Ltd is a company incorporated in the British Virgin Islands, which is wholly and beneficially owned by Mr. Hu.

Save as disclosed above, as at 30 September 2014, so far as is known to the Directors and the chief executive of the Company, and based on the public records filed on the website of the Stock Exchange and records kept by the Company, no other person or corporation has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO; or, who was directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Scheme" 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.

Share Option Scheme

Pursuant to an ordinary resolution passed by the then sole shareholder of the Company on 20 April 2004, the Company had adopted a share option scheme (the "2004 Share Option Scheme"), pursuant to which the Board was authorised to grant options to the eligible participants for the period of 10 years from 20 April 2004. The 2004 Share Option Scheme expired on 19 April 2014 and no further options can be granted pursuant to the 2004 Share Option Scheme. No options under the 2004 Share Option Scheme are currently outstanding.



As the 2004 Share Option Scheme expired on 19 April 2014, an ordinary resolution will be proposed at the annual general meeting of the Company to be held on 9 December 2014 for the shareholders of the Company to approve the adoption of a new share option scheme. Upon adoption by the Company, the new share option scheme will enable the Company to reward and provide incentives to, and strengthen the Group's business relationship with, the eligible participants who may contribute to the growth and development of the Group.

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 a 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 high standard of corporate governance for the enhancement of shareholders' value. The Company has applied the principles of and complied with all the applicable code provisions and, where appropriate, the applicable recommended best practices of the Code on Corporate Governance Practices (the "CG Code") 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 CG Code. The primary duties of the Audit Committee are to (i) review the Company's annual report and accounts, interim reports and quarterly reports; (ii) provide advice and comments thereon to the Board; and (iii) review and supervise the Group's financial reporting and internal control procedures. The Audit Committee comprises three independent non-executive directors, namely Mr. Chi Chi Hung, Kenneth (committee chairman), Mr. Yan Shengxian and Ms. Tang Qing.

The Group's unaudited condensed consolidated financial statements for the Period, has been reviewed by the Audit Committee, which is of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and that adequate disclosure have been made.

Change in Information of Director

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the change in information of the Directors since the date of annual report of the Company for the year ended 30 June 2014 are set out below:

Name of Director	Details of Change
Mr. Cai Da	Retired as an executive director of Hong Kong Life Sciences and Technologies Group Limited (stock code: 8085) with effect from 4 August 2014

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 17.05A (1) of the GEM Listing Rules.

By Order of the Board
China Natural Investment Company Limited
Cai Da
Chief Executive Officer

Hong Kong, 10 November 2014

As at the date of this report, the Board comprises (i) six executive directors, namely, Mr. Li Wai Hung, Mr. Cai Da, Mr. Chen Liang, Mr. Chen Youhua, Ms. Xiong Yun Huan and Mr. Johnny Huang; and (ii) three independent non-executive Directors namely, Mr. Chi Chi Hung, Kenneth, Mr. Yan Shengxian and Ms. Tang Qing.