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China Gamma Group Limited

中國伽瑪集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 164)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2012

FINANCIAL RESULTS

The board of directors (the “Board”) of China Gamma Group Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (together, the “Group”) for the year ended 31 March 2012 together with comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2012

	<i>Notes</i>	2012 HK\$'000	2011 HK\$'000
Turnover	3	26,726	30,473
Other revenue and gains, net	3	22,590	44,430
		49,316	74,903
Cost of sales	5	(30,957)	(25,777)
Administrative expenses		(71,057)	(74,278)
Impairment losses on other receivables		–	(1,346)
Loss from operations		(52,698)	(26,498)
Finance costs	4	(14,232)	(558)
Loss before taxation	5	(66,930)	(27,056)
Taxation	6	2,406	(3,684)
Loss for the year		<u>(64,524)</u>	<u>(30,740)</u>
Attributable to:			
Equity shareholders of the Company		(56,198)	(29,203)
Non-controlling interests		(8,326)	(1,537)
		<u>(64,524)</u>	<u>(30,740)</u>
Loss per share for loss attributable to equity shareholders of the Company	7		
– Basic		<u>(1.76) cents</u>	<u>(1.01) cents</u>
– Diluted		<u>(1.76) cents</u>	<u>(1.01) cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2012

	2012 HK\$'000	2011 <i>HK\$'000</i>
Loss for the year	(64,524)	(30,740)
Other comprehensive income:		
Exchange differences – net movement in exchange reserve	<u>3,204</u>	<u>6,081</u>
Total comprehensive expenses for the year	<u>(61,320)</u>	<u>(24,659)</u>
Attributable to:		
Equity shareholders of the Company	(52,709)	(22,880)
Non-controlling interests	<u>(8,611)</u>	<u>(1,779)</u>
Total comprehensive expenses for the year	<u>(61,320)</u>	<u>(24,659)</u>

CONSOLIDATED BALANCE SHEET

At 31 March 2012

	<i>Notes</i>	2012 HK\$'000	2011 <i>HK\$'000</i>
Non-current Assets			
Property, plant and equipment		141,156	33,804
Land use rights		17,627	12,201
Goodwill		195,129	23,592
Intangible asset		533,785	–
		887,697	69,597
Current Assets			
Inventories		44,599	32,777
Properties under development		43,777	41,897
Trade and other receivables	8	42,645	35,198
Financial assets at fair value through profit or loss		39,606	5,522
Cash and cash equivalents		18,774	19,757
		189,401	135,151
Current Liabilities			
Trade and other payables	9	165,134	59,056
Amount due to a non-controlling shareholder of a subsidiary		–	20,827
Current taxation payable		–	79
Bank and other borrowings		9,864	–
		174,998	79,962
Net Current Assets		14,403	55,189
Non-current Liabilities			
Amount due to a non-controlling shareholder of a subsidiary		20,330	–
Bank and other borrowings		424,850	9,501
Convertible note		88,848	–
Deferred taxation		7,659	10,143
		541,687	19,644
Net Assets		360,413	105,142

	<i>Notes</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Equity			
Capital and reserves attributable to the Company's equity shareholders:			
Share capital	10	33,737	29,557
Reserves		77,400	70,749
		111,137	100,306
Non-controlling interests		249,276	4,836
Total Equity		360,413	105,142

Notes:

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which also include Hong Kong Accounting Standards (“HKAS”) and Interpretations (“Int”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

The HKICPA has issued certain new and revised HKFRS that are first effective for the current accounting period of the Group as follows:

HKAS 24 (revised 2009)	Related party disclosures
Improvements to HKFRSs (2010)	
HK(IFRIC) Int-19	Extinguishing financial liabilities with equity instruments
Amendments to HK(IFRIC) Int-14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The amendments to HK(IFRIC) Int-14 have had no material impact on the Group’s financial statements as the Group does not have such minimum funding requirement. HK(IFRIC) Int-19 has not yet had a material impact on the Group’s financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

The impacts of other developments are discussed below:

HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group’s related party disclosures in the current and previous accounting periods. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. The disclosures about the Group’s financial instruments have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous accounting periods.

2. SEGMENTAL INFORMATION

Business segments

For management purpose, the Group is organised into five (2011: four) major operating divisions – rare resources, gamma ray irradiation services, property development, rental and sales, trading of building materials and provision of renovation services, and securities trading and investment. These divisions are the basis on which the Group reports its primary segment information.

Segment results, assets and liabilities

An analysis of the Group's turnover, contribution to operating results and segment assets and liabilities by business segments is presented as follows:

2012

	Rare resources <i>HK\$'000</i>	Gamma ray irradiation services <i>HK\$'000</i>	Property development, rental and sales <i>HK\$'000</i>	Trading of building materials and provision of renovation services <i>HK\$'000</i>	Securities trading and investment <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
INCOME STATEMENT							
FOR THE YEAR ENDED							
31 MARCH 2012							
REVENUE							
Turnover	6	9,404	16,450	866	-	-	26,726
Segment results	(25,787)	1,080	(7,793)	(392)	14,999	-	(17,893)
Unallocated other operating income							3
Unallocated corporate expenses							(34,808)
Loss from operations							(52,698)
Finance costs							(14,232)
Loss before taxation							(66,930)
Taxation							2,406
Loss before non-controlling interests							(64,524)

	Rare resources <i>HK\$'000</i>	Gamma ray irradiation services <i>HK\$'000</i>	Property development, rental and sales <i>HK\$'000</i>	Trading of building materials and provision of renovation services <i>HK\$'000</i>	Securities trading and investment <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
BALANCE SHEET							
AT 31 MARCH 2012							
ASSETS							
Segment assets	875,363	69,002	64,589	506	39,972	-	1,049,432
Unallocated corporate assets							27,666
							<u>1,077,098</u>
Consolidated total assets							<u>1,077,098</u>
LIABILITIES							
Segment liabilities	638,180	9,965	35,776	420	123	-	684,464
Unallocated corporate liabilities							32,221
							<u>716,685</u>
Consolidated total liabilities							<u>716,685</u>
OTHER INFORMATION							
FOR THE YEAR ENDED							
31 MARCH 2012							
Addition to goodwill	171,536	-	-	-	-	-	171,536
Intangible asset	547,472	-	-	-	-	-	547,472
Capital additions	4,514	50	543	-	-	69	5,176
Depreciation and amortisation	15,102	4,701	73	7	-	309	20,192
Net unrealised gains on financial assets at fair value through profit or loss	-	-	-	-	9,486	-	9,486
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,486</u>	<u>-</u>	<u>9,486</u>

2011

	Gamma ray irradiation services <i>HK\$'000</i>	Property development, rental and sales <i>HK\$'000</i>	Trading of building materials and provision of renovation services <i>HK\$'000</i>	Securities trading and investment <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
INCOME STATEMENT						
FOR THE YEAR ENDED						
31 MARCH 2011						
REVENUE						
Turnover	6,966	22,385	1,122	–	–	30,473
Segment results	297	(23,092)	(1,523)	(6,238)	–	(30,556)
Gain on disposal of a subsidiary						48,924
Unallocated other operating income						120
Unallocated corporate expenses						(44,986)
Loss from operations						(26,498)
Finance costs						(558)
Loss before taxation						(27,056)
Taxation						(3,684)
Loss before non-controlling interests						(30,740)

	Gamma ray irradiation services HK\$'000	Property development, rental and sales HK\$'000	Trading of building materials and provision of renovation services HK\$'000	Securities trading and investment HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
BALANCE SHEET						
AT 31 MARCH 2011						
ASSETS						
Segment assets	70,069	121,327	1,111	5,522	–	198,029
Unallocated corporate assets						6,719
						<u>204,748</u>
Consolidated total assets						<u>204,748</u>
LIABILITIES						
Segment liabilities	9,696	52,310	135	–	–	62,141
Unallocated corporate liabilities						37,465
						<u>99,606</u>
Consolidated total liabilities						<u>99,606</u>
OTHER INFORMATION						
FOR THE YEAR ENDED						
31 MARCH 2011						
Capital additions	13,547	61	–	–	467	14,075
Depreciation and amortisation	3,705	163	58	–	246	4,172
Impairment losses on other receivables	–	1,346	–	–	–	1,346
Fair value gain on investment properties	–	1,098	–	–	–	1,098
Net unrealised gains on financial assets at fair value through profit or loss	–	–	–	1,018	–	1,018
	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,018</u>	<u>–</u>	<u>1,018</u>

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year (2011: HK\$Nil).

Segment results represents the profit (loss) earned or incurred by each segment without allocation of central administration costs including directors' salaries, investment and other income, finance costs, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than current and deferred tax assets. Goodwill is allocated to reportable segments. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and
- all liabilities are allocated to reportable segments other than certain borrowings and current and deferred tax liabilities. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

Geographical segments

All of the Group's operations are principally located in Hong Kong and the People's Republic of China (the "PRC"). The Group's administration is carried out in Hong Kong.

An analysis of the Group's turnover by geographical market, irrespective of the origin of the goods and services, is presented below:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Hong Kong	866	1,122
The PRC	25,860	29,351
	26,726	30,473

The following is an analysis of the carrying amount of segment assets, and additions to goodwill, intangible asset and property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to goodwill, intangible asset and property, plant and equipment	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Hong Kong	59,832	12,161	38	–
The PRC	1,017,266	192,587	724,146	14,075
	1,077,098	204,748	724,184	14,075

Information about major customers

During the year ended 31 March 2011, the Group's customer base was diversified and no single external customer exceeded 10% of the total turnover of the Group.

During the year ended 31 March 2012, revenue from a customer amounting to HK\$2,835,000 contributed over 10% of the total turnover of the Group.

3. TURNOVER, OTHER REVENUE AND GAINS, NET

Turnover represents the aggregate of the net amounts received and receivable from third parties during the year. An analysis of the Group's turnover, other revenue and gains, net is as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Turnover		
Rare resources	6	–
Gamma ray irradiation services income	9,404	6,966
Sale proceeds from properties held for sale	16,179	20,942
Properties management fees	–	369
Rental income from investment properties	271	1,074
Renovation services	161	111
Trading of building materials	705	1,011
	26,726	30,473
Other revenue and gains, net		
Interest income on financial assets not at fair value through profit or loss	27	24
Dividend income from listed investments	249	–
Net realised gains/(losses) on financial assets at fair value through profit or loss	5,275	(7,321)
Net unrealised gains on financial assets at fair value through profit or loss	9,486	1,018
Gain on disposal of a subsidiary	–	48,924
Gain on disposal of investment properties	–	8
Fair value gain on investment properties	–	1,098
Bad debts recovered	5,114	–
Reversal of allowance on trade receivables, net (<i>note 8</i>)	192	–
Exchange gain	1,152	–
Sundry income	1,095	679
	22,590	44,430
	49,316	74,903
Gross proceeds from securities trading	98,389	36,585

4. FINANCE COSTS

	2012 HK\$'000	2011 HK\$'000
Interest on:		
Bank borrowing wholly repayable within five years	797	558
Other borrowings wholly repayable within five years	10,387	–
Convertible note	3,048	–
Total interest expense on financial liabilities not at fair value through profit or loss	14,232	558

5. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging/(crediting):

	2012 HK\$'000	2011 HK\$'000
Staff costs [#]		
– directors' remuneration	979	2,473
– basic salaries and other benefits	7,951	9,085
– retirement benefits scheme contributions	321	110
– share-based payments	–	7,101
	9,251	18,769
Auditors' remuneration	1,177	1,100
Depreciation and amortisation of property, plant and equipment [#]	6,147	3,715
Amortisation of intangible asset	13,537	–
Amortisation of land use rights	508	457
Loss on disposal of property, plant and equipment	1	14
Operating lease payments	4,918	6,547
Cost of sales [#]	30,957	25,777
Write-down of inventories	9,826	317
Rental income net of direct outgoings of HK\$Nil (2011: HK\$Nil)	(271)	(1,074)

[#] Cost of sales includes HK\$4,632,000 (2011: HK\$3,452,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above and other direct operating expenses of HK\$1,109,000 (2011: HK\$780,000).

6. TAXATION IN THE CONSOLIDATED INCOME STATEMENT

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Taxation in the consolidated income statement represents:		
Overseas tax:		
Current year	433	246
Under-provision in previous years	—	2
	<u>433</u>	<u>248</u>
Deferred tax:		
Origination and reversal of temporary differences	(2,839)	3,436
	<u>(2,839)</u>	<u>3,436</u>
Taxation (credit)/charge	<u>(2,406)</u>	<u>3,684</u>

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries in Hong Kong have no assessable profits for both years. Taxation for the PRC subsidiaries is charged at the appropriate current rate of taxation ruling in the PRC.

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to equity shareholders of the Company of approximately HK\$56,198,000 (2011: approximately HK\$29,203,000) and on the weighted average number of 3,198,951,982 (2011: 2,888,604,778) ordinary shares in issue during the year.

The calculation of diluted loss per share for the year ended 31 March 2012 and 31 March 2011 has not included the potential effect of share options outstanding and the deemed conversion of the convertible note into ordinary shares as they have an anti-dilutive effect on the basic loss per share for the year.

8. TRADE AND OTHER RECEIVABLES

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Trade receivables	3,491	3,774
Less: allowance for impairment	(2,632)	(2,901)
	<u>859</u>	<u>873</u>
Trade receivables, net	859	873
Other receivables and prepayments	41,786	34,325
	<u>42,645</u>	<u>35,198</u>

In the opinion of the directors, all of the above trade and other receivables are expected to be recovered or recognised as expense within one year.

The directors consider that the carrying amounts of trade and other receivables approximate to their fair values.

The Group allows an average credit period of 60 days to 90 days to its trade customers. The ageing analysis of the Group's trade receivables, based on the invoiced date and net of allowances, is as follows:

	2012 HK\$'000	2011 <i>HK\$'000</i>
Up to 30 days	627	310
31 to 90 days	231	385
91 to 365 days	1	178
	859	873

The movements on the allowance for impairment are as follows:

	2012 HK\$'000	2011 <i>HK\$'000</i>
At beginning of the year	2,901	2,901
Impairment loss recognised	–	98
Uncollectible amount written off	(77)	–
Unused amounts reversed (<i>note 3</i>)	(192)	(98)
	2,632	2,901
At end of the year		

The uncollectible amount written off for the Group during the year ended 31 March 2011 was in aggregate less than HK\$1,000.

At 31 March 2012, trade receivables of HK\$2,632,000 (2011: HK\$2,948,000) were impaired. The amount of allowance for impairment was HK\$2,632,000 as at 31 March 2012 (2011: HK\$2,901,000). The individually impaired receivables mainly related to a number of customers that were in financial difficulties and have remained long overdue.

The ageing analysis of the trade receivables that are considered to be impaired is as follows:

	2012 HK\$'000	2011 HK\$'000
Less than 6 months past due	–	78
6 months to 1 year past due	–	25
1 year to 2 years past due	25	42
Over 2 years past due	2,607	2,803
	<u> </u>	<u> </u>
	2,632	2,948
	<u> </u>	<u> </u>

The ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	2012 HK\$'000	2011 HK\$'000
Not yet past due	627	545
Less than 6 months past due	231	328
6 months to 1 year past due	1	–
	<u> </u>	<u> </u>
	859	873
	<u> </u>	<u> </u>

The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral or other credit enhancements over these balances. All of the other classes within trade and other receivables are neither past due nor impaired with good credit quality.

Included in trade and other receivables is the following amount denominated in a currency other than the functional currency of the Company to which they relate:

	2012 '000	2011 '000
Renminbi	26,940	28,785
	<u> </u>	<u> </u>

9. TRADE AND OTHER PAYABLES

	2012 HK\$'000	2011 HK\$'000
Trade payables	35,425	81
Other payables and accruals	129,709	55,375
Amount due to a director	–	3,600
	<u> </u>	<u> </u>
	165,134	59,056
	<u> </u>	<u> </u>

In the opinion of the directors, all of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The amount due to a director is unsecured, interest free and has no fixed term of repayment.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

The ageing analysis of the Group's trade payables is as follows:

	2012 HK\$'000	2011 <i>HK\$'000</i>
Up to 30 days	10,440	52
31 to 90 days	6,271	–
Over 90 days	18,714	29
	<u>35,425</u>	<u>81</u>

Included in trade and other payables is the following amount denominated in a currency other than the functional currency of the Company to which they relate:

	2012 '000	2011 <i>'000</i>
Australian Dollar	34	–
Renminbi	121,557	14,242
	<u>121,591</u>	<u>14,242</u>

10. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each:		
Authorised:		
At 1 April 2010, 31 March 2011 and 31 March 2012	15,000,000,000	150,000
Issued and fully paid:		
At 1 April 2010	2,867,681,490	28,677
Exercise of share options	88,000,000	880
	<u>2,955,681,490</u>	<u>29,557</u>
At 31 March 2011 and 1 April 2011	2,955,681,490	29,557
Exercise of share options (<i>Note</i>)	418,000,000	4,180
	<u>3,373,681,490</u>	<u>33,737</u>
At 31 March 2012	3,373,681,490	33,737

Note:

During the year, options were exercised to subscribe for 418,000,000 ordinary shares in the Company at a consideration of HK\$45,188,000 of which HK\$4,180,000 was credited to share capital and the balance of HK\$41,008,000 was credited to the share premium account together with a transfer of HK\$9,550,000 from the share options reserve to the share premium account.

All the ordinary shares issued during the year ranked pari passu with the then existing ordinary shares in all respects.

11. CAPITAL COMMITMENTS

At 31 March 2012, the Group had capital commitments contracted for but not provided for in the consolidated financial statements in respect of the purchase of plant and machinery amounting to approximately HK\$678,000.

At 31 March 2011, the Group had no significant capital commitments.

The Company had no significant capital commitments at both balance sheet dates.

12. CONTINGENT LIABILITIES

- (a) At 31 March 2012, the Company had given guarantees to two lenders in respect of other borrowings utilised by a subsidiary to an extent of RMB256,000,000 (equivalent to approximately HK\$315,193,000) (2011: HK\$Nil). The directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at 31 March 2012 under the guarantees by the Company is the aggregate amount of the borrowings drawn down by the subsidiary. In the opinion of the directors, the fair value of these guarantees is not significant.
- (b) The Company had contingent liabilities in respect of financial support given to certain subsidiaries which have capital deficiencies to allow them to continue as a going concern and to meet their liabilities as and when they fall due.
- (c) Other than those mentioned in (a) above, the Group had no other significant contingent liabilities as at both balance sheet dates.

13. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform to the current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the year ended 31 March 2012, turnover of the Group amounted to approximately HK\$26,726,000, representing a decrease of approximately 12% from HK\$30,473,000 in the previous year ended 31 March 2011, mainly due to a decrease in the turnover from the property development, rental and sales business amid the slowdown of the property market in China. Loss from operations for the year amounted to HK\$52,698,000 (2011: HK\$26,498,000). Net loss attributable to equity shareholders of the Company for the year increased to HK\$56,198,000 (2011: HK\$29,203,000). Included in the 2011 financial results was a gain on disposal of a subsidiary, 北京友聯房地產開發有限公司 (Beijing Yo Luan Property Development Company Limited) in February 2011 which amounted to HK\$48,924,000. Included in the 2012 financial results was a start-up cost from the Group's rare resources division and costs related to its first project in the rare earth refinery and processing business in China which together amounted to HK\$25,787,000 (2011: HK\$Nil). After adjusting for such exceptional changes, the operating results for the Group's existing business lines have shown substantial improvements. The Group has not been involved in the trading of any derivative financial instruments such as equity or currency accumulators. Loss per share was HK1.76 cents (2011: HK1.01 cents).

As at 31 March 2012, total assets and net assets of the Group were HK\$1,077,098,000 (2011: HK\$204,748,000) and HK\$360,413,000 (2011: HK\$105,142,000) respectively. The increase in total assets and net assets of the Group was mainly due to the acquisition of a 54% attributable interest in 冕寧縣茂源稀土科技有限公司 (Mianning Mao Yuan Rare Earth Technology Company Limited) in December 2011. Included in the total assets of the Group was intangible asset amounted to HK\$533,785,000 (2011: HK\$Nil) in relation to technical know-how technology to convert rare earth concentrates to a variety of rare earth products, resulting from the acquisition.

The Board does not recommend the payment of dividend for the year ended 31 March 2012.

Business Review

During the financial year under review, the Group has set up its rare resources division and engaged in the exploration of opportunities in rare resources projects.

The Group's first rare resources project is related to the entrance of the Group into the rare earth refinery and processing business in China which the Group believes, will become the major core business of the Group.

In addition, the Group is engaged in gamma ray irradiation services, property development, rental and sales, trading of building materials and provision of renovation services, and securities trading and investment.

Rare Resources Business

The Group's rare resources division was set up to explore and expand into strategic rare resources business with great potentials and applications in China.

As disclosed in the announcement of the Company dated 11 May 2011, the Group proposed to acquire a rare earth refinery and processing business to broaden the income base of the Group and increase shareholders' value. Following the approval by the shareholders of the acquisition at the special general meeting held on 8 September 2011, the Group completed the acquisition of a 54% attributable interest in 冕寧縣茂源稀土科技有限公司 (Mianning Mao Yuan Rare Earth Technology Company Limited) in December 2011. Through this acquisition, the Group will be able to capture the opportunities in the rare earth market in China and this business will become the major core business of the Group.

Rare earth elements are scarce natural resources which are essential to certain high technology, green energy and defense-related technology products. Demand for rare earth elements has been growing at high single-digit since 2005 with the exception of 2008-2009 when demand shrank resulting from global financial crisis. In 2011, global rare earth elements production was about 130,000 tonnes. China is by far the dominant supplier of rare earth elements, accounting for over 95% of the global market share while Sichuan province accounts for 24% to 30% of the country's total production. As the Chinese government took more measures during the year to restrict exploration, production and export of rare earth elements to protect this strategic resource, expectation of reduced supply drove rare earth elements prices to increase significantly in the second and third quarters of 2011.

冕寧縣茂源稀土科技有限公司 (Mianning Mao Yuan Rare Earth Technology Company Limited) is one of the largest rare earth refinery and processing companies in China. It operates a major rare earth refinery and processing plant situated in Mianning, Sichuan province with a designed processing capacity of 10,000 tonnes of rare earth concentrate per annum. After the completion of the acquisition, the plant started trial production in February 2012. Turnover generated from the rare earth refinery and processing business in the year was approximately HK\$6,000 from samples sales which accounted for approximately 0.02% of the Group's total turnover.

Separately, on 3 May 2011, the Group entered into a memorandum of understanding in relation to a proposed acquisition of a controlling interest in a mining company whose business scope includes development of vanadium mines and mining, processing and sale of vanadium. The memorandum of understanding has expired during the year under review. The Group, after taking into consideration of numerous factors, including terms of the agreement, market condition and economic environment, has decided not to proceed with the proposed acquisition.

This segment reported a loss of approximately HK\$25,787,000 (2011: HK\$Nil). This was mainly due to the amortisation of the intangible asset of the rare earth refinery and processing business which amounted to HK\$13,537,000 (2011: HK\$Nil), and the operating costs of the refinery as well as the operating and project development costs of our Group's rare resources division.

Gamma Ray Irradiation Services

During the financial year ended 31 March 2012, the Group's gamma ray irradiation business, through 淄博利源高科辐照技术有限公司 (Zibo Liyuan Gamma Ray Technologies Co. Limited) which is owned as to 80% by the Company, has recorded a turnover of approximately HK\$9,404,000 (2011: HK\$6,966,000) that accounted for approximately 35% of the Group's total turnover. This segment reported a profit of approximately HK\$1,080,000 (2011: HK\$297,000). The jump in operating profit was attributable to an increase in processing capacity during the year, successful marketing strategy and operating leverage.

Property Development, Rental and Sales

Turnover generated from the property development, rental and sales was approximately HK\$16,450,000 for the year under review (2011: HK\$22,385,000). Segment loss was HK\$7,793,000 (2011: HK\$23,092,000). The decrease in turnover was mainly attributable to the slowing down of the market generally in view of the macro economic control measures imposed by the Chinese government during the year as well as the decrease in property price. The decrease in segmental loss was due to the fact that in last financial year there were substantial amount of expenses incurred by the primary land development project held by 北京友聯房地產開發有限公司 (Beijing Yo Luan Property Development Company Limited) which was disposed of in February 2011.

The Group has an entire interest in a land parcel of approximately 5,800 square meters located in Phase III Phoenix Town, No. 500 Hongjin Avenue, Yubei District, Chongqing, the PRC with a total saleable area of approximately 35,000 square meters mainly for residential purpose. The Group also has commercial properties including shops and car park lots located in Phase I and Phase II at the same location which were being for sale in the period. Though the residential project in Yubei District is still at the preliminary stage of development, we do not rule out the possibilities of divesting this project if there are any good opportunities.

Trading of Building Materials and Provision of Renovation Services

The operating environments of building materials trading and renovation services remained weak during the year under review. This segment's turnover decreased 23% to approximately HK\$866,000 (2011: HK\$1,122,000) and suffered a loss of approximately HK\$392,000 (2011: HK\$1,523,000), which was mainly attributable to an increase in cost of sales.

Securities Trading and Investment

During the year under review, the global stock markets remained volatile amid the influence of European sovereign debt crisis and concerns over global economic recovery. Due to both unrealised and realised gains on equity investments held for trading, this segment reported a profit of HK\$14,999,000 (2011: loss of HK\$6,238,000).

Prospect

The Group's rare resources division will continue to focus on the development and explorations of opportunities in the area of rare resources in China and around the world which the Group believes, will have strategic applications in China. The completion of the acquisition of the rare earth refinery and processing business during current financial year marked the successful start of our Group's business in this regard. The Group will continue to deepen and widen its participation in this strategic rare resources business in the coming future.

As it relates to the rare earth refinery and processing business, it is expected that the Chinese Government will continue to consolidate the rare earth industry and restrict industry output in the coming year. These regulatory policies would provide more opportunities for qualified rare earth miners and processors in longer term. In May 2011, the Chinese State Council issued "Guidelines to Promote Sustainable and Sound Development of the Rare Earth Industry". According to the guidelines, the government commits to industrial reformation, and announced the suspension of issuance of new production licenses, cracking down on illegal mining and rare earths smuggling, and phasing out outdated and polluting mining practices. With the cracking down of illegal rare earth operators and smugglers, rare earth product prices are expected to rebound in the second-half of the year as their disruption to the market supply will come to an end. The elimination and consolidation of rare earth operators will improve supply-demand balance and profitability of the industry.

Meanwhile, demand for rare earth products is expected to rise steadily, particularly in the fast growing green energy and high tech segments. Neodymium, one of the light rare earth elements with applications in permanent magnets, auto catalysts, petroleum refining and lasers, has been classified by the US Department of Energy on the critical list and will be in short supply at least in the coming eight years. The Group is in production of this rare earth element and is positive on the outlook of rare earth market.

Being one of the largest rare earth refinery and processing companies in China, we will ride on the industrial reformation to broaden our customers base and to expand market share. In addition, we will explore the opportunities of forming strategic partnership with international rare earth players, so as to leverage on the synergy effects of the refinery technology know-how and management expertise. We are optimistic that the Group's rare resources division will make significant and positive contribution to the Group in the future.

Capital Investment and Commitments

At 31 March 2012, the Group had capital commitments contracted for but not provided for in the consolidated financial statements in respect of the purchase of plant and machinery amounting to approximately HK\$678,000.

At 31 March 2011, the Group had no significant capital commitments.

The Company had no significant capital commitments at both balance sheet dates.

Liquidity and Financial Resources

As at 31 March 2012, the Group had cash and cash equivalents of HK\$18,774,000 (31 March 2011: HK\$19,757,000). Short term bank borrowings, long term bank and other borrowings, and liability component of convertible note as at 31 March 2012 were HK\$9,864,000 (31 March 2011: HK\$Nil), HK\$424,850,000 (31 March 2011: HK\$9,501,000) and HK\$88,848,000 (31 March 2011: HK\$Nil) respectively. The increase in borrowings was mainly due to the cash used in operating activities and payments made for acquisition of subsidiaries. The gearing ratio, being the ratio of the sum of total borrowings and convertible note to total equity was 145% (31 March 2011: 9%). The liquidity ratio, being the ratio of current assets over current liabilities, was 108% as at 31 March 2012 (31 March 2011: 169%).

Pledge of Assets

At 31 March 2012, the Group's land use rights and certain property, plant and equipment with carrying amount of approximately HK\$15,885,000 (31 March 2011: HK\$15,877,000) were pledged to a bank to secure the bank borrowing granted to the Group.

Contingent Liabilities

At 31 March 2012, the Company had given guarantees to two lenders in respect of other borrowings utilised by a subsidiary to an extent of RMB256,000,000 (equivalent to approximately HK\$315,193,000) (2011: HK\$Nil). The directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at 31 March 2012 under the guarantees by the Company is the aggregate amount of the borrowings drawn down by the subsidiary. In the opinion of the directors, the fair value of these guarantees is not significant.

The Company had contingent liabilities in respect of financial support given to certain subsidiaries which have capital deficiencies to allow them to continue as a going concern and to meet their liabilities as and when they fall due.

The Group had no other significant contingent liabilities as at both balance sheet dates.

Share Capital Structure

418,000,000 new shares of HK\$0.01 each were issued and allotted during the year upon exercise of share options granted by the Company.

As at 31 March 2012, the total number of issued shares of the Company was 3,373,681,490. Save as the above, there was no change in the share capital structure of the Company during the year under review.

Material Acquisitions and Disposals of Subsidiaries

On 11 May 2011, 北京伽瑪企業管理有限公司 (Beijing Gamma Corporate Management Company Limited) (“BGCM”), a wholly-owned subsidiary of the Company in the PRC, entered into a sale and purchase agreement with Mr. Hu Zhengzhi, pursuant to which BGCM has conditionally agreed to purchase and Mr. Hu has conditionally agreed to disposal of 90% of the equity interest of 雲南和達投資有限公司 (Yunnan He Da Investments Company Limited) and sale loan at a consideration of RMB380,000,000. Details of the transaction are set out in the Company’s announcements dated on 11 May 2011 and 29 December 2011 respectively, and the circular dated on 24 August 2011. The transaction has been completed in December 2011. Upon completion, the Group indirectly holds 90% equity interest in 雲南和達投資有限公司 (Yunnan He Da Investments Company Limited), which in turn holds 60% equity interest in 冕寧縣茂源稀土科技有限公司 (Mianning Mao Yuan Rare Earth Technology Company Limited). It follows that the Group owns 54% attributable interest in 冕寧縣茂源稀土科技有限公司 (Mianning Mao Yuan Rare Earth Technology Company Limited).

On 8 March 2011, the Group entered into an agreement in relation to a proposed acquisition of a vanadium mining project (the “Proposed Acquisition”). On 3 May 2011, the parties entered into a memorandum of understanding in relation to the Proposed Acquisition to replace the said agreement (the “MOU”). Details of the MOU and the Proposed Acquisition are set out in the Company’s announcement dated 3 May 2011. No formal sale and purchase agreement was entered into, and the MOU has expired during the year.

Save as disclosed herein, the Group had no material acquisition and disposal of subsidiaries during the year ended 31 March 2012.

Litigations

On 24 October 2007, Silver Wind International Limited (“Silver Wind”), a wholly owned subsidiary of the Company, entered into a conditional agreement (the “Acquisition Agreement”) with Stronway Development Limited (“Stronway Development”), pursuant to which Silver Wind agreed to acquire from Stronway Development the entire equity interest in Winmax Asia Investment Limited (“Winmax Asia”). Under the arrangement, Winmax Asia would in turn acquire the entire equity interest in Beijing Jianxing Real Estate Development Co. (“Jianxing”) along with Jianxing’s standalone villas development project in Beijing known as “新星花園”. The aggregate consideration payable for the acquisition was RMB433,000,000 which was to be settled in cash, and two villas. In December 2007, RMB20,000,000 was paid under the Acquisition Agreement to Stronway Development by Silver Wind as deposit (the “Deposit”). Details of the acquisition are set out in the Company’s circular dated 14 December 2007.

In April 2008, on the grounds, amongst other things, that the subject matter under the Acquisition Agreement was frustrated, Silver Wind decided to terminate the Acquisition Agreement and, through its legal representative has served a notice of termination to Stronway Development. In order to protect the position of Silver Wind and to recover, amongst other things, the Deposit from Stronway Development, the legal proceedings were instigated against Stronway Development on this matter in the High Court of Hong Kong on 15 April 2008.

As at the date hereof, the legal proceedings against Stronway Development are still pending and there is no significant development.

Exposure to Exchange Rate Risk and Interest Rate Risk

The Group's transactions are denominated in Hong Kong dollars and Renminbi. The Group did not enter into any foreign exchange forward contracts to hedge against exchange rates fluctuations. Foreign exchange risk arising from the normal course of operations is considered to be minimal and the management will closely monitor the fluctuation in the currency and take appropriate actions when condition arises.

In terms of the interest rate risk exposures, the Group does not have any significant interest rate risk as both the borrowings of the Group and the interest rates currently remain at low levels.

Employees and Remuneration Policy

As at 31 March 2012, the Group employed 250 employees (31 March 2011: 57). Remuneration packages are generally structured by reference to market terms and individual merits. Salaries are reviewed periodically based on performance appraisal and other relevant factors. Staff benefits plans maintained by the Group include medical insurance, hospitalization scheme, mandatory provident fund and share option scheme.

Employees in the PRC are remunerated according to the prevailing market conditions in the locations of their employments.

DIVIDENDS

The Board does not recommend the payment of dividend for the year ended 31 March 2012 (2011: HK\$Nil).

CONNECTED TRANSACTION

A subscription agreement dated 8 March 2011 (the "Subscription Agreement") and a supplemental agreement to the Subscription Agreement dated 3 May 2011 were entered into between the Company and Mega Market Assets Limited ("Mega Market"), a substantial shareholder of the Company, pursuant to which, the Company shall issue the 1% unsecured convertible note to Mega Market with principal amount of HK\$105,000,000 in a term of 3 years (the "Convertible Note"). The initial convertible price of the Convertible Note is HK\$0.27 per share, subject to adjustment pursuant

to the terms of the Subscription Agreement. Details of the Subscription Agreement (as amended by the supplemental agreement) and the Convertible Note are set out in the Company's announcement and circular dated 3 May 2011 and 17 June 2011 respectively. The transaction has been approved in a special general meeting of the Company held on 5 July 2011. The Convertible Note has been issued to Mega Market on 17 October 2011. There was no movement in the Convertible Note since issuance and during the year ended 31 March 2012.

CORPORATE GOVERNANCE

The Corporate Governance Report is included in the Group's annual report for the year ended 31 March 2012.

Good corporate governance has always been recognized as vital to the Group's success and to sustain development of the Group. We commit ourselves to a high standard of corporate governance and have devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company has put in place corporate governance practices to meet the code provisions that are considered to be relevant to the Group and has complied with most of the code provisions for the time being in force throughout the year under review save for certain deviations from the code provisions, details of which will be explained in the relevant paragraphs in the Corporate Governance Report. The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management and the Company's external auditors, the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting process including the review of the financial statements for the year ended 31 March 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 March 2012.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The results announcement of the Group for the year ended 31 March 2012 is published on the websites of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) and the Company (<http://www.aplushk.com/clients/00164chinagamma/index.html>) respectively. The 2012 annual report and notice of the annual general meeting of the Company will be despatched to the shareholders of the Company and made available on the above websites in due course.

By order of the Board
China Gamma Group Limited
Wong King Shiu, Daniel
Executive Director

Hong Kong, 18 June 2012

As at the date of this announcement, the executive director of the Company is Mr. Wong King Shiu, Daniel; the non-executive directors of the Company are Mr. Ma Kwok Hung, Warren and Mr. Chow Siu Ngor; and the independent non-executive directors of the Company are Mr. Wong Hoi Kuen, Mr. Chan Chi Yuen and Mr. Hung Hing Man.

* *The English translation of Chinese names or words are for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*