China Gamma Group Limited
中國伽瑪集團有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 164)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

INTERIM RESULTS

The board of directors (the "**Board**") of China Gamma Group Limited (the "**Company**") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 September 2012 together with the comparative figures for the corresponding period in 2011. The unaudited condensed consolidated interim results have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2012

		Six months ended 30 September	
		2012	2011
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	*4*	**37,099**	13,746
Other revenue and gains, net	*4*	**10,875**	325
		47,974	14,071
Cost of sales		**(36,730)**	(10,563)
Impairment loss on intangible asset		**(81,840)**	—
Amortisation of intangible asset		**(27,239)**	—
Net unrealised losses on financial assets at fair value through profit or loss		**(2,187)**	(3,031)
Net realised losses on financial assets at fair value through profit or loss		**(356)**	(2,027)
Administrative expenses		**(28,299)**	(23,625)
Loss from operations	*5*	**(128,677)**	(25,175)
Finance costs		**(22,828)**	(604)
Loss before taxation		**(151,505)**	(25,779)
Taxation	*6*	**2,504**	(843)
Loss for the period		**(149,001)**	(26,622)

	Notes	Six months ended 30 September 2012 (Unaudited) *HK$'000*	2011 (Unaudited) *HK$'000*
Attributable to:			
Equity shareholders of the Company		**(92,505)**	(26,322)
Non-controlling interests		**(56,496)**	(300)
		(149,001)	(26,622)
Loss per share attributable to the equity shareholders of the Company during the period	*7*		
— Basic		**(2.74) cents**	(0.83) cents
— Diluted		**(2.74) cents**	(0.83) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2012

	Six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss for the period	**(149,001)**	(26,622)
Other comprehensive income:		
Exchange differences arising from translation of financial statements of foreign operations	**(7,590)**	3,006
Total comprehensive loss for the period	**(156,591)**	(23,616)
Attributable to:		
Equity shareholders of the Company	**(98,256)**	(23,130)
Non-controlling interests	**(58,335)**	(486)
Total comprehensive loss for the period	**(156,591)**	(23,616)

CONDENSED CONSOLIDATED BALANCE SHEET
At 30 September 2012

	Notes	30 September 2012 (Unaudited) HK$'000	31 March 2012 (Audited) HK$'000
Non-current Assets			
Property, plant and equipment		**136,179**	141,156
Land use rights		**17,180**	17,627
Goodwill		**193,661**	195,129
Intangible asset	*8*	**420,538**	533,785
		767,558	887,697
Current Assets			
Inventories		**26,839**	44,599
Properties under development		**—**	43,777
Trade and other receivables	*9*	**40,316**	42,645
Financial assets at fair value through profit or loss	*10*	**60,032**	39,606
Cash and cash equivalents		**38,895**	18,774
		166,082	189,401
Current Liabilities			
Trade and other payables	*11*	**146,863**	165,134
Bank and other borrowings	*12*	**—**	9,864
		146,863	174,998
Net Current Assets		**19,219**	14,403
Total Assets less Current Liabilities		**786,777**	902,100
Non-current Liabilities			
Amount due to a non-controlling shareholder of a subsidiary		**20,559**	20,330
Bank and other borrowings	*12*	**461,892**	424,850
Convertible note		**91,762**	88,848
Deferred taxation		**3,631**	7,659
		577,844	541,687
Net Assets		**208,933**	360,413

	Notes	30 September 2012 (Unaudited) HK$'000	31 March 2012 (Audited) HK$'000
Equity			
Capital and reserves attributable to the Company's equity shareholders:			
Share capital	*13*	**33,787**	33,737
Reserves		**(15,795)**	77,400
		17,992	111,137
Non-controlling interests		**190,941**	249,276
Total Equity		**208,933**	360,413

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 September 2012

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with the Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities which are carried at fair value.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2012.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations issued by the HKICPA, which are effective for the Group's financial year beginning on 1 April 2012.

Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

The adoption of the new or revised Hong Kong Financial Reporting Standards ("**HKFRSs**") had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

The Group has not early adopted the following new or revised standards and amendments that have been issued but are not yet effective.

Amendments to HKFRSs	Annual improvement to HKFRSs 2009-2011 cycle[2]
Amendments to HKFRS 7	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities[2]
Amendments to HKAS 1	Presentation of financial statements – Presentation of items of other comprehensive income[1]
Amendments to HKAS 32	Financial instruments: Presentation – Offsetting financial assets and financial liabilities[3]
HKFRS 9	Financial instruments[4]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
HKAS 19 (2011)	Employee benefits[2]
HKAS 27 (2011)	Separate financial statements[2]
HKAS 28 (2011)	Investments in associates and joint ventures[2]

[1] *Effective for annual periods beginning on or after 1 July 2012.*
[2] *Effective for annual periods beginning on or after 1 January 2013.*
[3] *Effective for annual periods beginning on or after 1 January 2014.*
[4] *Effective for annual periods beginning on or after 1 January 2015.*

The Group has not early adopted the new HKFRSs that have been issued but not yet effective. The directors of the Company (the "**Directors**") are currently assessing the impact of these new HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's result of operations and financial position.

3. SEGMENT INFORMATION

For management purpose, the Group has three (2011: two) principal lines of businesses namely (1) property business; (2) gamma ray irradiation services; and (3) resources business which, together with other operation, are organised into five (2011: four) major operating divisions — (1) property development, rental and sales; (2) trading of building materials and provision of renovation services; (3) gamma ray irradiation services; (4) rare resources; and (5) securities trading and investment. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's unaudited turnover and segment results by business segments is presented as follows:

Business segments

For the six months ended 30 September 2012

	Property business		Gamma ray irradiation services	Resources business	Other operation	
	Property development, rental and sales (Unaudited) *HK$'000*	Trading of building materials and provision of renovation services (Unaudited) *HK$'000*	Gamma ray irradiation services (Unaudited) *HK$'000*	Rare resources (Unaudited) *HK$'000*	Securities trading and investment (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
REVENUE						
Turnover	**7,454**	**13**	**2,948**	**26,684**	**—**	**37,099**
Segment results	**(133)**	**(379)**	**(1,227)**	**(119,229)**	**(2,276)**	**(123,244)**
Unallocated other operating income						**6,214**
Unallocated corporate expenses						**(11,647)**
Loss from operations						**(128,677)**
Finance costs						**(22,828)**
Loss before taxation						**(151,505)**
Taxation						**2,504**
Loss before non-controlling interests						**(149,001)**

Business segments
For the six months ended 30 September 2011

	Property business		Gamma ray irradiation services	Other operation	
	Property development, rental and sales (Unaudited) *HK$'000*	Trading of building materials and provision of renovation services (Unaudited) *HK$'000*	Gamma ray irradiation services (Unaudited) *HK$'000*	Securities trading and investment (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
REVENUE					
Turnover	8,653	593	4,500	—	13,746
Segment results	(844)	(518)	297	(5,063)	(6,128)
Unallocated other operating income					1
Unallocated corporate expenses					(19,048)
Loss from operations					(25,175)
Finance costs					(604)
Loss before taxation					(25,779)
Taxation					(843)
Loss before non-controlling interests					(26,622)

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the period (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.

Information about major customers
For the six months ended 30 September 2012, revenues of approximately HK$5,923,000 was derived from sales by property development, rental and sales segment to a customer, revenues of approximately HK$4,627,000, HK$5,275,000 and HK$9,303,000 were derived from sales by rare resources segment to three separate customers, all amounted to 10% or more of the Group's revenues for the period.

For the six months ended 30 September 2011, revenues of approximately HK$2,811,000 and HK$2,480,000, were derived from sales by property development, rental and sales segment to two separate customers, both amounted to 10% or more of the Group's revenues for that period.

4. TURNOVER, OTHER REVENUE AND GAINS, NET

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

	Six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Turnover		
Property development, rental and sales	**7,454**	8,653
Trading of building materials and provision of renovation services	**13**	593
Gamma ray irradiation services	**2,948**	4,500
Rare resources	**26,684**	—
	37,099	13,746
Other revenue and gains, net		
Other income	**6,624**	325
Gain on disposal of subsidiaries	**1,557**	—
Exchange gain	**2,694**	—
	10,875	325
	47,974	14,071

5. LOSS FROM OPERATIONS

	Six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Amortisation of land use rights	**297**	238
Amortisation of intangible asset	**27,239**	—
Impairment loss of intangible asset	**81,840**	—
Cost of sales#	**36,730**	10,563
Write-down inventories	**7,643**	—
Depreciation of property, plant and equipment#	**5,375**	2,356
Loss on disposal of property, plant and equipment	**—**	1
Interest income	**(17)**	(13)

Cost of sales includes HK$2,048,000 (2011: HK$2,055,000) relating to depreciation expenses, which amount is also included in the respective total amounts disclosed separately above.

6. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries in Hong Kong have no assessable profits for the six months ended 30 September 2011 and 2012 respectively. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rate of taxation prevailing in the countries in which the Group operates.

The amount of income tax expense in the condensed consolidated income statement represents:

	Six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current taxation		
Overseas Tax		
— Provision for the period	**91**	221
Deferred taxation		
— Origination and reversal of temporary differences	**(2,595)**	622
Income tax (credit)/charge	**(2,504)**	843

7. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 September 2012 is based on the loss for the period attributable to the equity shareholders of the Company of approximately HK$92,505,000 (2011: HK$26,322,000) and on the weighted average number of 3,374,227,938 shares (2011: 3,160,080,395 shares) in issue during the period.

The calculation of diluted loss per share for the six months ended 30 September 2012 and 30 September 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 respective period.

8. INTANGIBLE ASSET

The Group

	HK$'000
COST	
At 1 April 2011	—
Arising on acquisition of a subsidiary	547,472
At 31 March 2012	547,472
At 1 April 2012	**547,472**
Exchange realignment	**(4,685)**
At 30 September 2012	**542,787**
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS	
At 1 April 2011	—
Amortisation for the year	13,537
Exchange realignment	150
At 31 March 2012	13,687
At 1 April 2012	**13,687**
Amortisation for the period	**27,239**
Impairment loss	**81,840**
Exchange realignment	**(517)**
At 30 September 2012	**122,249**
NET BOOK VALUE	
At 31 March 2012	533,785
At 30 September 2012	**420,538**

The intangible asset relates to the technical know-how technology to convert rare earth concentrates into a variety of rare earth products.

The technical know-how has a finite useful life and is amortised on a straight-line basis over its estimated useful life of 10 years.

In accordance with the Group's accounting policies, the Group has assessed the recoverable amount of the technical know-how based on value-in-use calculations, which uses cash flow projections based on financial budgets approved by the management covering the 10-year operation period of the business with discount rate of 20.22% per annum. The discount rate used reflects specific risk relating to the rare resources industry.

For the purpose of impairment test, the recoverable amount as at 30 September 2012 has been assessed by reference to a valuation prepared by Roma Appraisals Limited, an independent valuer, determined based on the value-in-use calculations. As the recoverable amount is less than its carrying amount as at 30 September 2012, accordingly an impairment of approximately of HK$81,840,000 (2011: HK$Nil) was charged to the profit and loss. The circumstances leading to the impairment was mainly due to recent changes in the market situation e.g. price drop, decrease in demand, PRC government policies controlling the supply of rare earth raw materials etc., particularly since August 2012, the whole rare earth industry has been disrupted.

9. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	30 September 2012	31 March 2012
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade receivables	**3,108**	3,491
Less: allowance for impairment	**2,632**	2,632
Trade receivables, net	**476**	859
Other receivables and prepayments	**39,840**	41,786
	40,316	42,645

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 invoice date and net of allowances, is as follows:

	THE GROUP	
	30 September 2012	31 March 2012
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Up to 30 days	**250**	627
31 to 90 days	**221**	231
91 to 365 days	**5**	1
	476	859

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	THE GROUP	
	30 September 2012	31 March 2012
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Listed securities held for trading:		
— Equity securities – Hong Kong	**60,030**	39,606
— Equity securities – Overseas	**2**	—
Market value of listed securities	**60,032**	39,606

11. TRADE AND OTHER PAYABLES

	THE GROUP	
	30 September 2012	31 March 2012
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade payables	**39,710**	35,425
Other payables and accruals	**107,153**	129,709
	146,863	165,134

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 Directors consider that the carrying amounts of trade and other payables approximate to their fair values.

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

	THE GROUP	
	30 September 2012	31 March 2012
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Up to 30 days	**2**	10,440
31 to 90 days	**1**	6,271
Over 90 days	**39,707**	18,714
	39,710	35,425

12. BANK AND OTHER BORROWINGS

	THE GROUP	
	30 September 2012 (Unaudited)	31 March 2012 (Audited)
	HK$'000	*HK$'000*
Current		
Bank borrowing – secured	**—**	9,864
Non-current		
Bank borrowings – secured	**9,780**	—
Other borrowings – unsecured *(Note)*	**452,112**	424,850
Total borrowings	**461,892**	434,714

	THE GROUP	
	30 September 2012 (Unaudited)	31 March 2012 (Audited)
	HK$'000	*HK$'000*
Bank borrowing repayable		
Within one year	**—**	9,864
In the second year	**9,780**	—
	9,780	9,864
Other borrowings repayable		
Within one year	**—**	—
In the second year *(Note)*	**452,112**	424,850
	452,112	424,850
Total bank and other borrowings	**461,892**	434,714

Note: At 30 September 2012 and 31 March 2012, other borrowings include two loans obtained by a wholly-owned subsidiary from independent third parties amounting to RMB180,000,000 and RMB76,000,000 respectively, both are due for repayment in full in December 2013.

13. SHARE CAPITAL

	Number of shares	Amount *HK$'000*
Ordinary shares of HK$0.01 each		
AUTHORISED		
At 31 March 2012 and 30 September 2012	15,000,000,000	150,000
ISSUED AND FULLY PAID		
At 31 March 2012	3,373,681,490	33,737
Issuance upon exercise of share options	5,000,000	50
At 30 September 2012	3,378,681,490	33,787

14. CONTINGENT LIABILITIES

(a) At 30 September 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$312,958,000) (31 March 2012: RMB256,000,000 (equivalent to approximately HK$315,193,000)). 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 30 September 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.

15. CAPITAL COMMITMENTS

At 30 September 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$367,000 (31 March 2012: approximately HK$678,000).

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

16. OPERATING LEASE COMMITMENTS

The Group as lessee

The Group made minimum lease payments of approximately HK$2,917,000 (2011: approximately HK$2,670,000) under operating leases in respect of office premises during the period.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	30 September 2012	31 March 2012
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within one year	**2,540**	2,731
In the second to fifth year inclusive	**48**	116
	2,588	2,847

Operating lease payments represent rentals payable by the Group for certain of its office premises and warehouses. Leases are negotiated and fixed for an average term of one to three years.

17. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the period, the Group had significant transactions with the following related parties, together with balances with them as at the balance sheet date, details of which are as follows:

	Six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Key management compensation of the Group:		
Fees, salaries and other short-term employee benefits	**570**	559
Pension scheme contributions	**6**	4
	576	563
Substantial shareholder:		
Interest on convertible note	**522**	—

	30 September 2012	31 March 2012
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Substantial shareholder:		
Subscription of convertible note	**105,000**	105,000
A company controlled by a substantial shareholder:		
Other borrowing	**56,235**	56,636

Save as disclosed above, there were no other significant transactions with related parties during the period or significant balances with them at the end of the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 September 2012 (the "**Interim Period**"), the Group recorded a turnover of HK$37,099,000 (six months ended 30 September 2011: HK$13,746,000), representing an increase of 170% compared with previous corresponding period. The increase was mainly attributable to the contribution from rare earth refinery and processing business which began trial production in February 2012. During the Interim Period, the Group also recorded a transaction proceed of disposing subsidiaries holding properties in China amounted to HK$42,840,000.

Loss from operations for the period was HK$128,677,000 (six months ended 30 September 2011: HK$25,175,000). Net loss attributable to equity shareholders of the Company for the period increased to HK$92,505,000 (six months ended 30 September 2011: HK$26,322,000), which was mainly attributable to the recognition of an impairment loss of HK$81,840,000 and the amortisation of HK$27,239,000 of the intangible asset of the rare earth refinery and processing business (six months ended 30 September 2011: HK$Nil).

As at 30 September 2012, the unaudited total assets and net assets of the Group were HK$933,640,000 and HK$208,933,000 (31 March 2012: HK$1,077,098,000 and HK$360,413,000) respectively. The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2012.

Business Review

During the period under review, the Group is mainly engaged in property business, gamma ray irradiation services and resources business.

Property Business

The Group's property business includes property development, rental and sales and trading of building materials and provision of renovation services. Total proceed generated from our property business was HK$50,307,000 (six months ended 30 September 2011: HK$9,246,000) including the proceed of disposing subsidiaries holding properties in China, turnover of property development, rental and sales and trading of building materials and provision of renovation services, which was approximately HK$42,840,000, HK$7,454,000 and HK$13,000 for the period (six months ended 30 September 2011: HK$Nil, HK$8,653,000 and HK$593,000) respectively. Segment loss for property development, rental and sales and trading of building materials and provision of renovation services narrowed down to HK$133,000 and HK$379,000 (six months ended 30 September 2011: HK$844,000 and HK$518,000) respectively.

The growth of property market in the PRC slowed down in recent years in view of the macro economic control measures imposed by the government. In light of the uncertainty of market conditions, in August the Group took the opportunity to transact its properties under development which located in Chongqing, the PRC through disposing Unique Gold Investments Limited and 重慶鳳弘吉實業有限責任公司 (Chongqing Feng Hong Ji Enterprise Company Limited*). The Group initially planned to develop this property into high-rise residential properties with ancillary commercial shops, recreational facilities and car park lots. In consideration of a favourable offer, the Group decided to realize the value from this property under development. The disposal realized a total proceed of RMB35,000,000 (equivalent to approximately HK$42,840,000) and recognized a gain of approximately HK$1,557,000. The Group believes the transaction could allow it to be more flexible in exploring other opportunities in property development and investment.

Against stable policy backdrops, the property market has turned more stable recently. The primary housing transaction volumes started to improve while property prices in some major cities rebounded. Looking ahead, the Group will continue to explore opportunities in property development and investment in China, particularly in Chongqing and Sichuan, to leverage on our expertise and experience in the PRC property market.

Gamma Ray Irradiation Services

Gamma ray irradiation is a proven effective means of cold pasteurization of food and sterilization of medical products. It becomes more popular in modernized countries. The Group believes there will be long term sustainable growth in this industry despite moderate competition may happen in the short term.

The Group's gamma ray irradiation business is conducted through 淄博利源高科輻照技術有限公司 (Zibo Liyuan Gamma Ray Technologies Co. Limited*), a 80% owned subsidiary of the Group which is licensed by Ministry of Environmental Protection of the PRC for provisioning of irradiation services by utilizing gamma ray technologies. Turnover generated from the gamma ray irradiation services in the Interim Period was approximately HK$2,948,000 (six months ended 30 September 2011: HK$4,500,000). This segment reported a loss of approximately HK$1,227,000 (six months ended 30 September 2011: profit of HK$297,000). During the period under review, an increase in competition which resulted in a decline in margins amidst weaker market demand has affected the operating performance of the business. The Group will continue to improve its operation and production efficiency through enhancing the production flow and logistics and streamlining business operations. In addition, the Group will increase its marketing efforts, including participating in related industry conferences and exhibitions, as well as conducting more promotions to expand customer base and market share.

Resources Business

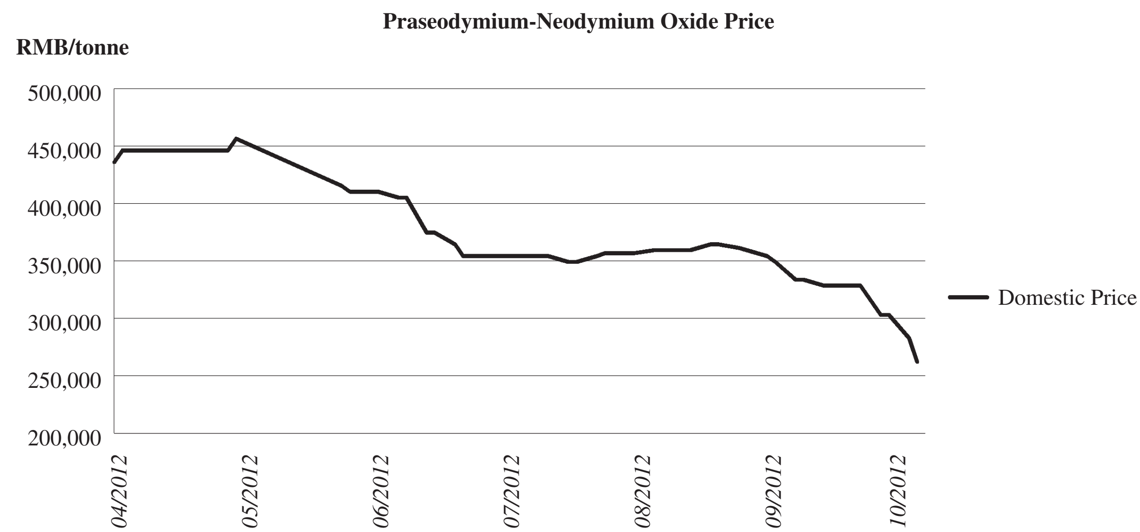
The Group's resources division has been exploring and expanding into resources business with great potentials and applications in various industries in China and other regions.

During the period under review, the Group has further strengthened its talent base in the resources division and established various sub-divisions with dedicated focus on different segment of the value chain of the resources industry. The division strives for becoming one of the key players in upstream, midstream and downstream businesses and a full vertically integrated player in the industry.

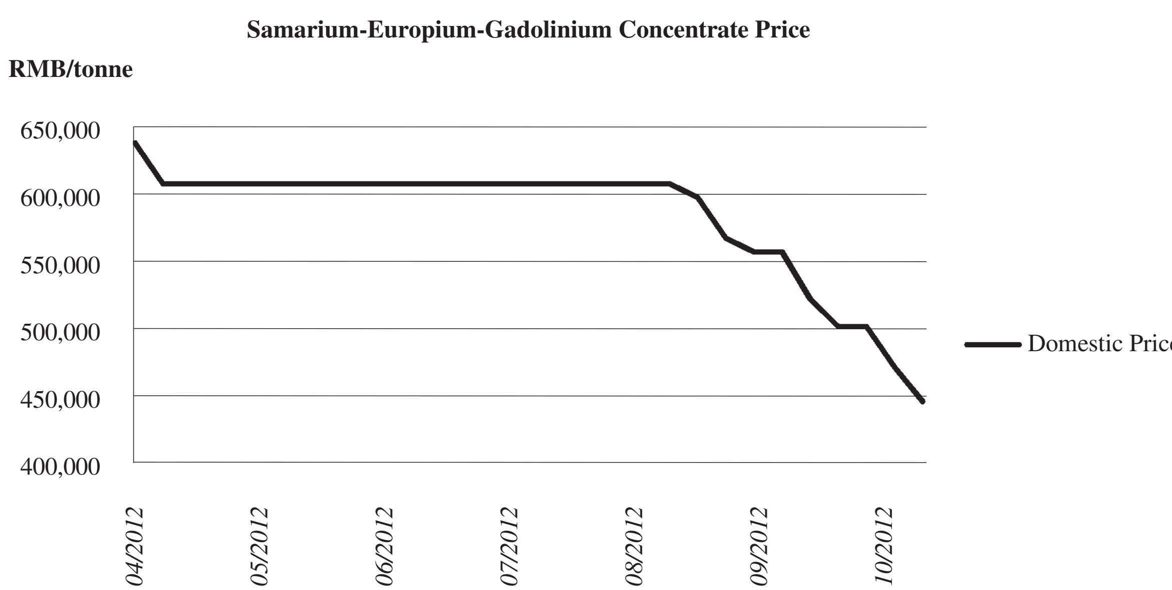
We started with midstream business in the resources industry and our first project is related to rare earth refinery and processing business in China. It is conducted through 冕寧縣茂源稀土科技有限公司 (Mianning Mao Yuan Rare Earth Technology Company Limited), a 54% owned subsidiary of the Group, which operates a major rare earth refinery and processing plant situated in Mianning, Sichuan province.

Although the Board envisaged that the global economic slowdown and weak industrial production in developed countries would have some impacts on the rare earth market for the period under review, the recent territorial dispute between China and Japan over Diaoyu Islands caused substantial uncertainty in the demand for processed rare earth products since

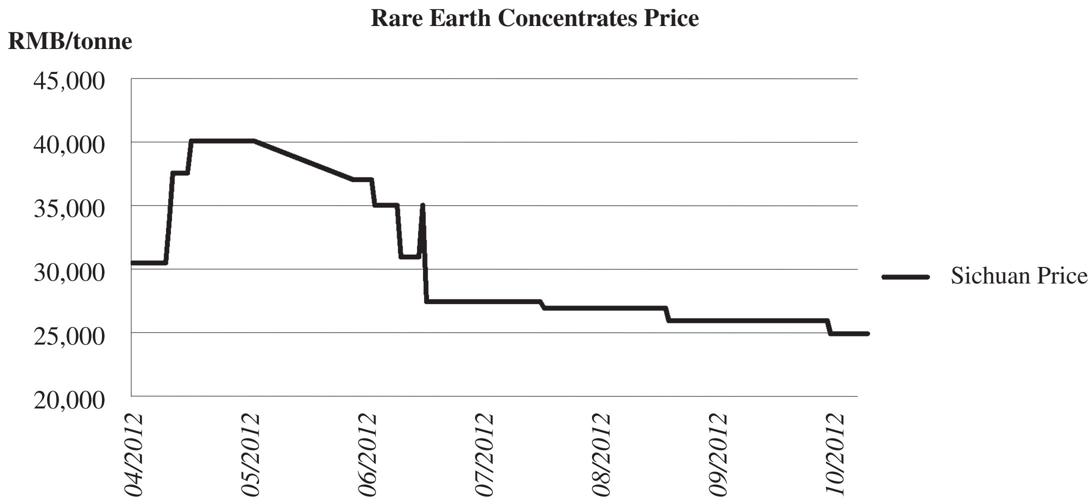
August 2012. Japan is a major importer of Chinese rare earth products. In 2011, Japan accounted for 66% of the whole Chinese rare earth products export. The recent territorial dispute caused a sharp decline in the domestic demand of Japanese brand automobile in the PRC, which in turn led to a fall in demand for rare earth products which are used in manufacturing electronic components and car engines. It also drove Japan to diversify its source of rare earth supply from China. This led to an unexpected sharp fall in the demand, export and prices for rare earth products. For instance, prices of praseodymium-neodymium oxide and samarium-europium-gadolinium concentrate which are our major products, slid by about 27% and 33% respectively since August 2012, while cost of rare earth concentrates, the major raw material of our products has been relatively stable during the period (please refer to the charts below).



Source: Metal Pages



Source: Asia Metal



Source: CNFEOL

Due to recent changes in the market situation e.g. price drop, decrease in demand, PRC government policies controlling the supply of rare earth raw materials etc., particularly since August 2012, the whole rare earth industry has been disrupted. In view of the abrupt worsening of the business environment, and the uncertain timing of a recovery of the demand for rare earth products, the Group took a prudent approach to procure less rare earth raw materials and reduced its rare earth oxides production. The Group also prudently reviewed the asset value of the business and recognised an impairment loss of intangible asset of the rare earth refinery and processing business which amounted to HK$81,840,000 (six months ended 30 September 2011: HK$Nil).

During the period under review, turnover from the Group's resources business amounted to HK$26,684,000 (six months ended 30 September 2011: HK$Nil). The segment reported a loss of approximately HK$119,229,000 (six months ended 30 September 2011: HK$Nil) after the recognition of an impairment loss and the amortisation of the intangible asset of the rare earth refinery and processing business which in total amounted to HK$109,079,000.

Other Operation

During the Interim Period, stock markets remained volatile amid the influence of European sovereign debt crisis and concerns over global slowdown. Due to both unrealised and realised losses on equity investments held for trading, the securities trading and investment business reported a loss of HK$2,276,000 (six months ended 30 September 2011: HK$5,063,000).

Prospect

The global economic condition remains challenging. The market is skeptical over the effect of the third round of quantitative easing on the real economy of the United States while the threat of the Euro zone sovereignty debt crisis still persists. The Chinese economy, despite showing signs of stabilization recently, is likely to remain lackluster against the backdrop of global slowdown.

Property Business

Despite the economic uncertainties, policy stabilization in the real estate industry should underpin improvement in new home sales volume in China. Pent-up demand from the first-time home buyers, which has been built up since the consolidation of the property market in 2011 should drive new home sales against the backdrop of a more stable policy environment. The Group has always been devoting resources to land bank acquisitions, including looking into different land sites in Sichuan and Chongqing for mixed use development. The Group will closely monitor the land and property market in China, with an eye for opportunities to acquire premium sites at attractive prices. The Group continues to adopt stringent criteria for land acquisitions, and focuses on development and investment on properties not impacted by home purchase restrictions.

Gamma Ray Irradiation Services

In view of slowing Chinese exports amidst global economic slowdown, demand for food irradiation and sterilization of medical devices using gamma ray technologies for export will likely be impacted in the near term. Nevertheless, in response to the PRC Government policy to encourage domestic consumption, higher food hygiene standard requirements as national living standard improves, and growing public concerns on food safety and the government's commitment to enforce related regulations, manufacturers in food industry would need an efficient and reliable method in sterilization. Gamma ray irradiation offers unique advantages over conventional methods and should be more widely used in domestic food industry subsequently. In order to cater for the sustainable growth of gamma ray irradiation services in food industry in China, the Group will increase its marketing efforts, including participating in related industry conferences and exhibitions, as well as conducting more promotions in China to increase potential domestic customers awareness of gamma ray irradiation applications, with a view to expand domestic customer base and market share. In addition, medical devices industry is also one of the fastest growing industries in China and gamma ray irradiation has applications in sterilization of medical products and devices and this methodology has proven to be very efficient and effective as gamma ray can sterilize products without unpacking which can avoid contamination of re-packaging. The Group believes that its gamma ray irradiation business would benefit from the remarkable growth of food and medical devices industries in the long term.

Resources Business

The challenging global economic conditions, together with mounting political tension between China and Japan over the recent territorial dispute of Diaoyu Islands cause the rare earth business to remain uncertain in the short term.

As discussed above, during the Interim Period, the rare earth refinery and processing business of the Group reported a substantial loss after the recognition of an impairment loss and amortisation of its intangible asset and suffered from an operating loss during such period. Given the challenging environment, it is uncertain as to whether the performance of the rare earth refinery and processing business of the Group would improve in the short term.

That said, further to Federal Reserve's announcement of further quantitative easing (QE3) in September, commodity markets were generally bound to benefit given prevailing low global interest rates and additional liquidity. It is expected that the market of various resources might be potentially strengthening when the physical impact of QE3 materializes subsequently. In addition, recent signs of stabilization in the Chinese economy may drive expectation of improving domestic demand of raw materials and various resources in the medium term. However, the benefit of QE3 still cannot outweigh the uncertainty of the rare earth market, particularly in the midstream segment of the value chain, given the sharp decline both in demand and price of rare earth products under current situation. As such, apart from the rare earth refinery and processing business, the Group will continue to explore opportunities related to value chain of resources from upstream, midstream to downstream. We hope that through this continuous review, the Group will be able to develop a suitable portfolio of resources business with stable and profitable return to the shareholders.

Property, Plant and Equipment
During the Interim Period, there were additions of HK$1,632,000 (six months ended 30 September 2011: HK$657,000) to property, plant and equipment to expand the Group's operations.

Capital Commitments
Details of significant capital commitments of the Group and the Company are set out in note 15 to the financial statements of this announcement.

Liquidity and Financial Resources
As at 30 September 2012, the Group had cash and cash equivalents of HK$38,895,000 (31 March 2012: HK$18,774,000). This was mainly the net result of the proceeds on disposal of subsidiaries and net cash used in operating activities. Short term bank borrowings, long term bank and other borrowings, and liability component of convertible note as at 30 September 2012 were HK$Nil (31 March 2012: HK$9,864,000), HK$461,892,000 (31 March 2012: HK$424,850,000) and HK$91,762,000 (31 March 2012: HK$88,848,000) respectively. The gearing ratio, being the ratio of the sum of total borrowings and convertible note to total equity, as at 30 September 2012 was 265% (31 March 2012: 145%). The liquidity ratio, being the ratio of current assets over current liabilities, was 113% as at 30 September 2012 (31 March 2012: 108%).

The increase in gearing ratio during the period under review was mainly due to lower total equity resulting from an increase in net loss. In order to strengthen the Group's financial base and to improve its liquidity (and to reduce its gearing ratio), taking into consideration of the Group's working capital and debt repayment requirements in the next eighteen months, and to improve the profitability (and minimizing loss) of its businesses in this challenging environment , the Company is actively considering different fund raising and business restructuring options with a view to safeguarding the interest of the Company and our shareholders.

Pledge of Assets
At 30 September 2012, the Group's land use rights and certain property, plant and equipment with carrying amount of approximately HK$15,409,000 (31 March 2012: HK$15,885,000) were pledged to a bank to secure the bank borrowings granted to the Group.

Contingent Liabilities
Details of contingent liabilities of the Group and the Company are set out in note 14 to the financial statements of this announcement.

Share Capital Structure
5,000,000 new shares of HK$0.01 each (the "**Shares**") were issued and allotted during the period under review upon exercise of share options granted by the Company.

As at 30 September 2012, the total number of issued shares of the Company was 3,378,681,490. Save as the above, there was no change in the share capital structure of the Company during the period under review.

Convertible Note
In October 2011, the Company issued the convertible note to Mega Market Assets Limited with principal amount of HK$105,000,000 in a term of 3 years (the "**Convertible Note**"). Each Convertible Note will be convertible into fully paid Shares at an initial conversion price of HK$0.27 per Share. The Convertible Note bear interest at the rate of 1% per annum payable semi-annually in arrear. At 30 September 2012, the principal amount of the Convertible Note outstanding was HK$105,000,000 (31 March 2012: HK$105,000,000).

Material Acquisitions and Disposals of Subsidiaries
On 17 August 2012, Fame Plus International Limited ("**Fame Plus**"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Guo Qingguo (the "**Purchaser**"), pursuant to which Fame Plus has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire issued share capital of Unique Gold Investments Limited ("**Unique Gold**") at a consideration of RMB10,000,000 (the "**Sale and Purchase Agreement**"). Unique Gold owned the entire equity interest in 重慶鳳弘吉實業有限責任公司 (Chongqing Feng Hong Ji Enterprise Company Limited*) (the "**Project Company**"). In addition, when the Sale and Purchase Agreement has been entered into, the Purchaser shall pay RMB25,000,000 to the Project Company to settle and repay the current debts and other relevant debts between 重慶旭日房地產開發有限公司 (Chongqing Sunrise Property Development Company Limited*), an indirect wholly-owned subsidiary of the Company, and the Project Company. Details of the transaction are set out in the Company's announcement dated 17 August 2012. The transaction has been completed on 17 August 2012.

Save as disclosed herein, the Group had no material acquisition and disposal of subsidiaries during the six months ended 30 September 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.

Staff
As at 30 September 2012, the Group employed 243 employees. 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.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2012 (2011: HK$Nil).

CORPORATE GOVERNANCE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, throughout the six months period, in compliance with the code provisions (the "**Code Provision(s)**") under the Corporate Governance Code (effective from 1 April 2012) as set out in Appendix 14 to the Listing Rules, except the following deviations:

Under the Code Provision A.2.1, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. The Company does not at present have a Chairman nor a Chief Executive Officer. Nevertheless, the main duties and responsibilities of a Chairman and a Chief Executive Officer are currently held by separate individuals with written guidelines for the division of responsibilities with a view to maintain an effective segregation of duties between the management of the Board and the day-to-day management of the Group's business and operations. The Company will continue to review the effectiveness of the Group's corporate governance structure and consider the appointment of a Chairman of the Board and a Chief Executive Officer if candidates with suitable leadership, knowledge, skills and experience can be identified within or outside the Group.

Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Save for Mr. Wong Hoi Kuen, none of the non-executive Directors nor the independent non-executive Directors is appointed for a specified term but their terms of office are the period up to their retirement by rotation in accordance with the Company's bye-laws. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Corporate Governance Code.

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 as the code of conduct regarding securities transactions by the Directors. Specific enquiry has been made to all the Directors and the Directors have confirmed that they have complied the Model Code throughout the six months ended 30 September 2012.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters in relation to the preparation of the unaudited condensed financial statements for the six months ended 30 September 2012.

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

During the six months ended 30 September 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The results announcement of the Group for the six months ended 30 September 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 interim report 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, 31 October 2012

As at the date of this announcement, the Board comprises six Directors, of which an executive Director, namely Mr. Wong King Shiu, Daniel, two are non-executive Directors, namely Mr. Ma Kwok Hung, Warren and Mr. Chow Siu Ngor and three are independent non-executive Directors, namely 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.*