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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Gamma Group Limited (the “**Company**”), you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

MAJOR TRANSACTION – ACQUISITION OF CONTROLLING STAKE IN RARE EARTH REFINERY AND PROCESSING BUSINESS AND NOTICE OF SPECIAL GENERAL MEETING

A notice convening a special general meeting of the Company to be held at Unit 3411, 34/F., COSCO Tower, Grand Millennium Plaza, 183 Queen’s Road Central, Hong Kong on Thursday, 8 September 2011 at 4:30 p.m. is set out on pages 108 to 109 of this circular.

Whether or not you are able to attend and vote at the SGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company’s branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as practicable and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

24 August 2011

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Acquisition”	the acquisition of the Sale Share and the Sale Loan by BGCM (or a PRC Domestic Enterprise to which BGCM may assign its rights and obligations under the Sale and Purchase Agreement) from the Vendor under the Sale and Purchase Agreement
“Ample Capital”	Ample Capital Limited, a licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the financial adviser appointed in relation to the profit forecast as required under Rule 14.62(3) of the Listing Rules
“associates”	has the same meaning ascribed thereto in the Listing Rules
“BGCM”	北京伽瑪企業管理有限公司 (Beijing Gamma Corporate Management Company Limited*), a company incorporated in the PRC and a wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday, Sunday and public holidays) on which banks in the PRC are open for general banking transactions
“Company”	China Gamma Group Limited, a company incorporated in Bermuda and the issued Shares are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Sale and Purchase Agreement in accordance with the terms thereof
“Completion Date”	the date of Completion, which shall be on the third Business Day after the conditions set out in the paragraph headed “Conditions Precedent” under the section “Sale and Purchase Agreement” have been fulfilled or waived either in whole or in part (as the case may be), or such other date as may be agreed by the Vendor and BGCM in writing
“connected person(s)”	has the same meaning ascribed thereto in the Listing Rules

DEFINITIONS

“Consideration”	the consideration of RMB380,000,000 (equivalent to approximately HK\$454,860,000), payable in respect of the Acquisition pursuant to the Sale and Purchase Agreement
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group together with the Target Group immediately after Completion
“Group”	the Company and its subsidiaries
“Group Restructuring”	the restructuring of the Target Group to the effect that the Target Company holds 60% equity interest in the Target Operator (which owns the Rare Earth Refinery Plant)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	third party(ies) and its/their ultimate beneficial owner(s) which are independent of the Company and its connected persons (as defined under the Listing Rules)
“Latest Practicable Date”	19 August 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contain in this circular
“Listing Rules”	the Rules governing the Listing of Securities on the Stock Exchange
“PRC”	Peoples’ Republic of China which, for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC Domestic Enterprise”	a company to be incorporated in the PRC by other wholly-owned PRC subsidiaries of the Company
“Rare Earth Refinery Plant”	rare earth refinery and processing plant located in Mianning, Liangshan Zhou, Sichuan Province, the PRC

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 11 May 2011 entered into between BGCM and the Vendor in relation to the Acquisition (after 12:00 noon on 11 May 2011)
“Sale Loan”	all debts, disbursements or other liabilities owing or incurred by the Target Group to the Vendor as at the Completion
“Sale Share”	90% of the equity interest of the Target Company, which represents the Vendor’s entire equity interest holding in the Target Company
“SFO”	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be convened to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at Unit 3411, 34/F., COSCO Tower, Grand Millennium Plaza, 183 Queen’s Road Central, Hong Kong on Thursday, 8 September 2011 at 4:30 p.m.
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription CN”	the 1% coupon unsecured convertible notes in the principal amount of HK\$105,000,000 due on the third anniversary of the date of issue which shall be issued by the Company to Mega Market Assets Limited under the subscription agreement (as amended) as disclosed in the announcement of the Company dated 3 May 2011 and the circular of the Company dated 17 June 2011
“Target Company”	雲南和達投資有限公司 (<i>Yunnan He Da Investments Company Limited</i>), a company incorporated in the PRC

DEFINITIONS

“Target Group”	the Target Company and the Target Operator after the Group Restructuring
“Target Operator”	冕寧縣茂源稀土科技有限公司, (<i>Mianning Mao Yuan Rare Earth Technology Company Limited*</i>), a company incorporated in the PRC with limited liability
“US\$”	United States dollars, the lawful currency of the United States of America
“Vendor”	Mr. Hu Zhengzhi (胡征志), an Independent Third Party, who holds 90% equity interest in the Target Company
“%”	per cent.

* *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.*

For the purpose of this circular, unless otherwise specified, conversion of RMB into HK\$ is based on the approximate exchange rate of RMB1.00 to HK\$1.197. The exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been or could have been or may be exchanged at this or any other rates at all.

LETTER FROM THE BOARD

China Gamma Group Limited

中國伽瑪集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 164)

Executive Director:

Ho Chi Ho

Non-executive Directors:

Ma Kwok Hung, Warren

Chow Siu Ngor

Independent non-executive Directors:

Wong Hoi Kuen

Chan Chi Yuen

Hung Hing Man

Registered office:

Clarendon House

Church Street

Hamilton HM11

Bermuda

Principal place of business

in Hong Kong:

Unit 3411, 34/F., COSCO Tower

Grand Millennium Plaza

183 Queen's Road Central

Hong Kong

24 August 2011

To the Shareholders

Dear Sir/Madam,

**MAJOR TRANSACTION –
ACQUISITION OF CONTROLLING STAKE IN
RARE EARTH REFINERY AND PROCESSING BUSINESS
AND
NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement published by the Company on 11 May 2011 in relation to the Acquisition.

LETTER FROM THE BOARD

On 11 May 2011 (after 12:00 noon), BGCM, a wholly-owned subsidiary of the Company in the PRC, entered into the Sale and Purchase Agreement with the Vendor, pursuant to which BGCM has conditionally agreed to purchase and the Vendor has conditionally agreed to dispose of the Sale Share and the Sale Loan at a consideration of RMB380,000,000 (equivalent to approximately HK\$454,860,000).

The purpose of this circular is to provide you with (i) information regarding the Sale and Purchase Agreement in relation to the Acquisition; and (ii) the notice of SGM at which a resolution will be proposed to consider and, if thought fit, approve (i) above.

THE SALE AND PURCHASE AGREEMENT

Date

11 May 2011

Parties

- (i) Mr. Hu Zhengzhi (胡征志); and
- (ii) BGCM, a wholly-owned subsidiary of the Company in the PRC.

To the best of Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor is an Independent Third Party who is a PRC resident and a businessman who participates in various natural resources related projects.

Assets to be acquired

The Sale Share and the Sale Loan. The Sale Loan amounts to approximately HK\$5,900,000 up to the Latest Practicable Date.

Consideration

Pursuant to the Sale and Purchase Agreement, BGCM conditionally agreed to purchase and the Vendor conditionally agreed to dispose of the Sale Share and the Sale Loan at a cash consideration of RMB380,000,000 (equivalent to approximately HK\$454,860,000) payable to the Vendor on the Completion Date in accordance with the instruction of the Vendor.

LETTER FROM THE BOARD

It is currently expected that part of the Consideration will be satisfied by way of proceeds from the issue of the Subscription CN in the amount of HK\$105 million, and to satisfy the balance of the Consideration payable by way of a combination of equity and/or debt financing raised or arranged by the Group. As of 31 March 2011, the Group held a property under development and certain properties held for sale with an aggregate valuation of approximately HK\$90 million. The Group is in the process of arranging for the realization of such properties and the proceeds from such realization may be applied towards the partial satisfaction of the Consideration payable. Should that happen, the total amount that needs to be raised by way of equity and/or debts as mentioned herein may therefore be reduced accordingly.

At present, the Company is still in the process of arranging with different parties regarding its possible financing arrangement, which include (1) approaching several investment banks on the possible fund raising exercise to raise money through placings of new Shares to strategic or institutional investors, and (2) discussing with several banks in the PRC for loan facilities. Although the Company is in discussions with these parties on the possible funding raising arrangements, no concrete or confirmed arrangement has been finalised. The Company confirms that the Vendor will not be expected to be a party to the agreements relating to such equity and/or debt financing. In addition, depending on the change of financial circumstances, the amount and proportion of financing arrangements among the different possible sources may be subject to further adjustment or fine-tuning as the Board may consider from time to time as appropriate to finance the Acquisition. Such equity and/or debt financing or re-financing arrangement, if conducted, will be subject to the market conditions and therefore may or may not be successfully materialised. The Company will ensure compliance in relation to Rule 13.09(1) of the Listing Rules.

Under the Sale and Purchase Agreement (which is governed by the PRC law), BGCM is a wholly-owned subsidiary of the Company (which is a separate legal entity of the Company), and the Company is not a party nor a guarantor of BGCM. As advised by the Company's PRC legal counsel, in the event of BGCM's failure to timely pay the Consideration or any other breach by BGCM, the Vendor shall have the right to sue BGCM (but not the Company) for such non-payment or breach of contract. In such circumstances, the loss to the Company is not expected to be substantial because BGCM has no substantial assets or business operations.

LETTER FROM THE BOARD

The risk factors of the Acquisition in relation to the financing arrangement for the cash Consideration include:

- (i) The Company is still in discussion with several parties regarding the possible financing arrangements, such as equity and/or debt financing. However, as at the Latest Practicable Date, no concrete or confirmed arrangement has been finalised by the Company. As a result, the Company cannot assure investors or the Shareholders that the Company or BGCM, being the wholly-owned subsidiary of the Company, will be able to obtain sufficient funding to finance the intended purchases and to pay the Consideration in relation to the Acquisition. Hence, the Acquisition may or may not proceed, and the Completion will depend on the funding arrangements to be agreed with the financing institutions.
- (ii) The Company is not a party to the Sale and Purchase Agreement. The failure of the Group to obtain adequate funding for BGCM to pay the Consideration will result in a breach by only BGCM of the Sale and Purchase Agreement. Nevertheless, such breach may adversely affect the reputation of the whole Group.
- (iii) One of the financing arrangements to finance the Acquisition is placing of new Shares with possible institutional or strategic investors in the future in which could have a possible dilution effect to the shareholdings of the existing Shareholders.
- (iv) Regarding the possible bank facilities to obtain bank loan in the PRC, there is no assurance that the Group will always be able to pay its debt obligations in the future as they become due. In the event of liquidity difficulty, the Group might have to divert its cash flow from operations to the payment of its debts, which would reduce the funds available for its operations and future development projects and may result in deficiency in available working capital. Also, if the Company is eventually unable to generate sufficient cash flow and is otherwise unable to obtain funds necessary to meet required on its indebtedness, the Company could be in default under the terms of the loans and debts agreements. The creditors could institute proceedings against the Company's assets, which could force the Company into bankruptcy or liquidation.

LETTER FROM THE BOARD

Basis of Consideration

The Consideration was agreed upon between BGCM and the Vendor on arm's length negotiations. The Board considers that the Consideration is fair and is reasonable to the Group as a whole, having taken into account, amongst other things:

- (i) the Rare Earth Refinery Plant of the Target Operator being one of few licensed plants in Sichuan Province which is the second largest production hub of rare earth in the PRC. According to the latest government policy on rare earth industry namely "Opinions of the State Council on Promoting Sustainable and Healthy Development of the Rare Earth Industry" (國務院關於促進稀土行業持續健康發展的若干意見) issued on 10 May 2011, no new rare earth refinery project will be approved within the 12th five-year plan of the PRC government;
- (ii) the designed annual processing capacity (upon completion of additional production lines) of the Target Operator being 10,000 tonnes of rare earth concentrates which, to the best knowledge of the Company, is one of the largest rare earth refinery and processing plants in Sichuan, the PRC;
- (iii) the variety of rare earth products of the Target Operator;
- (iv) the boosting of the price of rare earth products since 2010 and the anticipation of the continual increase in the price given the uniqueness of rare earth's characteristics and the growing worldwide demand for rare earth oxides and downstream products, especially polishing powder, magnets, catalysts, metal alloys and phosphors, in the coming years as reported in recent researches. For example, the domestic price of Cerium oxide, being the major and most consumed rare earth element worldwide, has increased about 4 times from about RMB35,000 per tonne in the beginning of 2011 to about RMB177,500 per tonne at the end of July;
- (v) the competition in the rare earth industry is becoming less keen following the adoption of a series of PRC government policies that encourage market consolidation and curb illegal production and smuggling of rare earth products; and
- (vi) the proximity of location of the Target Operator's plant to the rare earth mines region will result in a ready local supply of rare earth concentrates at lower logistic costs to the Target Operator.

LETTER FROM THE BOARD

Conditions Precedent

The Completion is subject to and conditional upon the satisfaction of the following conditions:

- (a) BGCM having completed, to its satisfaction with its due diligence review on the Target Company and the Target Operator which shall include but not limited to the financial, tax, operational and legal aspects;
- (b) the Group Restructuring having been completed in accordance with the terms and manner to the reasonable satisfaction of BGCM;
- (c) BGCM and the other shareholder of the Target Company having signed the shareholders' agreement relating to the Target Company and the amended and restated articles of association of the Target Company in accordance with the terms and format to the reasonable satisfaction of BGCM;
- (d) the other shareholder of the Target Company having waived the pre-emptive right relating to the Sale Share;
- (e) all requisite relevant governmental approvals, consents, authorization, registration and filings in connection with the transactions contemplated under the Sale and Purchase Agreement having been obtained, and each such approval, consent, authorization, registration and filing remaining entirely valid;
- (f) the industry and commerce registration and the register of members of the Target Company having shown that BGCM holds 90% equity interest in the Target Company;
- (g) the Company having obtained the approval of the Shareholders (or independent Shareholders, if required) as required under the Listing Rules in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (h) all requisite third party consents in connection with the transactions contemplated under the Sale and Purchase Agreement having been obtained to the reasonable satisfaction of BGCM, and such consents remaining valid;
- (i) each of the two parties to the Sale and Purchase Agreement having obtained all delegations and consents that are necessary to its/his performance of the obligations, warranties and undertakings in the Sale and Purchase Agreement, including but not limited to its shareholders' and board approvals of the transactions contemplated under the Sale and Purchase Agreement;

LETTER FROM THE BOARD

- (j) each of the two parties to the Sale and Purchase Agreement having performed its/his obligations, warranties and undertakings in the Sale and Purchase Agreement;
- (k) BGCM having received an opinion issued by its PRC legal adviser in respect of the Target Company, the Target Operator and the transactions contemplated under the Sale and Purchase Agreement, in accordance with the terms and format to the satisfaction of BGCM;
- (l) no material adverse change having occurred to the financial and operational situation of the Target Company or the Target Operator;
- (m) all representations and warranties given by the Vendor in the Sale and Purchase Agreement remaining true and accurate as at Completion;
- (n) there having been no subsisting order signed by any court having jurisdiction or any governmental authority that prohibits or invalidates the transactions contemplated under the Sale and Purchase Agreement, and there having been no law, regulation, rule, Listing Rules or other requirement that restricts, prohibits or invalidates such transactions; and
- (o) there having been no litigation or proceedings pending decisions of any court or governmental authority, or any litigations or proceedings threatened by a third party, that purports to restrict, prohibit or invalidate the transactions contemplated under the Sale and Purchase Agreement or to make substantial claims in connection with such transactions.

BGCM shall be entitled at its discretion at any time by a notice in writing to the Vendor to waive any of the conditions above (save and except the conditions (e), (g), (h) and (n) and BGCM's obligations under conditions (i) and (j), which cannot be waived) either in whole or in part. BGCM will exercise its waiver right to the above conditions only upon prudent consideration by the Directors and if the Directors consider that it is beneficial to the Group as a whole.

In the event that any of the conditions has not been satisfied or waived by BGCM (as the case may be) on or before 30 September 2011 (or such other date as agreed between the parties to the Sale and Purchase Agreement), the Sale and Purchase Agreement shall cease to be of effect (unless otherwise decided by BGCM) whereupon neither of the parties to the Sale and Purchase Agreement shall have any other claim of any nature or liabilities hereunder whatsoever against the other party under the Sale and Purchase Agreement, save for any antecedent breaches of the terms hereof.

Completion

Completion shall take place on the third Business Day after the fulfillment or, where applicable, waiver either in whole or in part (as the case may be) of the abovementioned conditions precedent to the Sale and Purchase Agreement (or such other date as the Vendor and BGCM may agree in writing).

LETTER FROM THE BOARD

Assignment

The Sale and Purchase Agreement allows BGCM to assign all its rights and obligations to a PRC Domestic Enterprise, and BGCM intends to so assign its rights and obligations to a PRC Domestic Enterprise such that after Completion, the PRC Domestic Enterprise will hold the Sale Share and the Sale Loan.

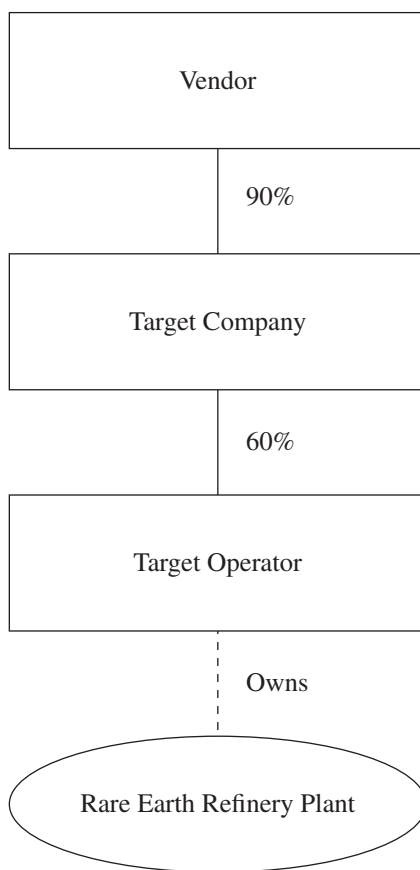
INFORMATION ON THE VENDOR, THE TARGET GROUP AND THE TARGET OPERATOR

Group Restructuring

The Group Restructuring, which is one of the conditions precedent to the Completion, has been completed.

Set out below is the shareholding structure of the Target Group before Completion:

Target Group before Completion



LETTER FROM THE BOARD

Upon Completion, the Company will through, a PRC Domestic Enterprise, indirectly hold 90% equity interest in the Target Company, which in turn holds 60% equity interest in the Target Operator (which owns the entire interests in the Rare Earth Refinery Plant). It follows that the Group will own 54% attributable interest in the Target Operator.

Vendor

The Vendor, an Independent Third Party, is a PRC resident and a businessman who participates in various natural resources related projects.

Target Company

The Target Company is incorporated with limited liability in the PRC and the equity interest of which is held by the Vendor as to 90% (the remaining 10% interest is held by an Independent Third Party). It is principally engaged in investment holdings and procurement of rare earth concentrates. Up to the Latest Practicable Date, the Target Company has secured a long term supply of rare earth concentrates from a major rare earth mine for the Target Operator in Mianning, Sichuan, the PRC under a contract for a term of 15 years, under which the Target Company has the first right to purchase rare earth concentrates produced by the supplier who is an Independent Third Party.

Upon completion of the Group Restructuring, the Target Company holds 60% equity interest in the Target Operator.

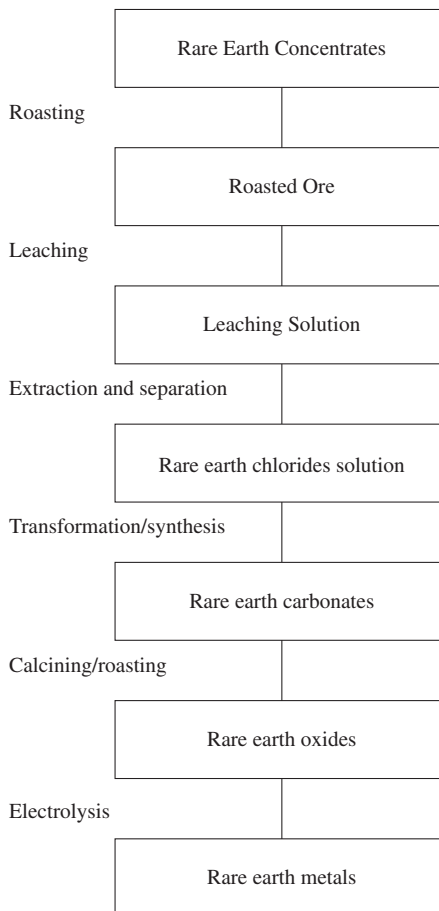
Target Operator and its rare earth refinery and processing business

The Target Operator is a company incorporated in the PRC and principally engaged in the refinery and processing of rare earth elements into products which have broad applications in industrial and consumer related industries including high-technology and green energy technologies.

Given their magnetic, electrical, catalytic, optical and other properties, rare earth products are traditionally used in glass additives, ceramics, fertilizers and pigments. More new and important use of rare earth products is now in high-technology and green energy technologies and key products include magnet, catalysts, polishing powder, metal alloys and phosphors. They are applied in hi-tech and green energy products like compact fluorescent lights, hybrid vehicle, wind turbine generators, flat panel displays, integrated circuits, glass fibers for transmitting data, and digital cameras etc. Many other rare earth applications are currently ongoing, with a great focus in the areas of energy efficiency and conservation, and environmental protection, for instance, in the development of magnetic refrigeration, fuel cell applications and in water treatment technologies, etc.

LETTER FROM THE BOARD

The Target Operator owns the Rare Earth Refinery Plant located in Sichuan Province, the PRC. Sichuan Province is the second largest production hub of rare earth products in the PRC, accounting for 24% to 30% of the total national production, whereas the PRC is the largest supplier of rare earth products in the world and accounts for over 95% of the world production and dominates the supply. The operation of the Target Operator is situated in the vicinity of major rare earth mines regions. It is located at Mianning Rare Earth Industrial Park which already has an established road network linking the Industrial Park to the transportation network in the city and the region. The technology used by the Target Operator involved in its rare earth refinery processing is a technique which separates and processes rare earth concentrates into high purity rare earth oxides, rare earth metals and related products like polishing powder. The production process is divided into 6 major stages, namely, (1) roasting (which produces roasted ore which can be dissolved in hydrochloric acid), (2) leaching (using hydrochloric acid to produce rare earth chlorides solution), (3) extraction and separation (using chemicals to separate mixed rare earth chlorides into different classes of rare earth chlorides solution), (4) transformation/synthesis (precipitating of rare earth chlorides and production of rare earth carbonates), (5) calcining/roasting (a thermal treatment process to produce rare earth oxides) and (6) electrolysis (rare earth oxides are converted into rare earth metals by using direct electric current). The diagram below illustrates these:–



LETTER FROM THE BOARD

The major equipment that are involved in the 6 stages are: (1) revolving kiln for roasting, (2) reaction tanks, hydrochloric acid tanks and pumps for leaching, (3) extraction tanks, pumps and water treatment equipment for extraction and separation, (4) reaction tanks, centrifuge and pumps for transformation/synthesis, (5) thermal channel, channel trucks for calcining/roasting, and (6) electrolysis furnace, voltage transformer for electrolysis.

In connection with the rare earth refinery and processing business, the Target Operator has obtained the following PRC governmental approvals:–

- Approval Reply Regarding High-performance Rare Earth Polishing Powder Project* (關於高性能稀土拋光粉項目的批復) granted by the Office of Sichuan Provincial Development and Reform Commission* (四川省發展和改革委員會辦公室) on 11 February 2011;
- Approval Reply Regarding Environmental Impact Statement on High-performance Rare Earth Polishing Powder Construction Project* (關於高性能拋光粉建設項目環境影響報告書的批復) granted by the Office of Environmental Protection Bureau of Sichuan Province* (四川省環境保護廳辦公室) on 29 December 2010;
- Approval Reply Regarding Water and Soil Conservation Program Report on High-performance Rare Earth Polishing Powder Project* (關於高性能拋光粉項目水土保持方案報告的批復) granted by the Office of Liangshan Prefecture Water Bureau* (涼山州水務局辦公室) on 24 June 2010; and
- Approval Reply Regarding Original Company Business Scope to be retained by “Caogu Metallurgical Plant of Mianning Mao Yuan Rare Earth Technology Company Limited” After Restructuring* (關於重組後「冕寧縣茂源稀土科技有限公司曹古冶金廠」保留原公司經營範圍的批復) granted by Economics Bureau of Mianning County* (冕寧縣經濟局) on 1 December 2010.

The Target Operator purchases rare earth concentrates from a major rare earth mine in the Sichuan Province which has a total reserve of rare earth concentrates being able to satisfy the Target Operator’s planned annual processing capacity for a term of 15 years. The actual volume of the purchases from the supplier and the delivery arrangement will depend on the requirement of the Target Operator from time to time. Also, the pricing arrangement with the supplier is agreed to be set by reference to the market price of the rare earth concentrates.

LETTER FROM THE BOARD

The target customers of the Target Operator are mainly private enterprises, including end users such as manufacturers of consumer products from Chengdu (成都), Leshan (樂山), Zhejiang (浙江), Shanxi (山西), and also traders from Chengdu (成都), Shandong (山東), Zhejiang (浙江) and Shanghai (上海) in the PRC. The terms of sales with these customers including volume, pricing and delivery arrangements vary and are subject to negotiations between the Target Operator and the respective individual customers, but in general the sales prices are set with reference to the market prices of the rare earth concentrates and the relevant products. Up to the Latest Practicable Date, the Target Operator has procured orders from over 20 target customers located across the PRC.

It started operations in May 2011. According to its plan, it is anticipated that majority of the production lines with a wide range of rare earth products output including Cerium rich compounds, Lanthanum carbonate, Lanthanum oxides, Praseodymium Neodymium oxides, polishing powder and Samarium Europium Gadolinium Compounds, will be accomplished and commence operations by end of the third quarter of 2011. For the remaining production lines, it is anticipated that their operations will commence before the end of 2011.

The Target Operator estimates and the Vendor warrants in the Sale and Purchase Agreement to BGCM that a further investment of not more than RMB50,000,000 (equivalent to approximately HK\$59,850,000) will be required for the completion of the remaining additional production lines. Given the Group is acquiring 54% attributable equity interest in the Target Operator, it follows that the Group will be expected to contribute not more than RMB27,000,000 (equivalent to approximately HK\$32,319,000). The Company expects that 40% of the RMB27,000,000 additional investment can be used for the construction of a separate plant for production of Europium oxides. Major equipment for the additional line is extraction and separation tanks. The additional line will enable the plant to produce high value oxide and metal and hence improve the products mix and profit margin of refinery business. Such further investment amount is estimated with reference to the cost of production lines equipment and the construction costs of the remaining plant for installing those production lines. The Company's current financing plan for funding the additional investment of RMB27,000,000 is proposed to be satisfied by way of a combination of internal resources and equity and/or debt financing.

The total planned processing capacity of the Rare Earth Refinery Plant upon completion of the additional production lines is 10,000 tonnes of rare earth concentrates per annum, which is one of the largest rare earth refinery plants in Sichuan Province, the PRC.

LETTER FROM THE BOARD

Financial information on the Target Group

The unaudited loss (both before and after taxation) of the Target Group for each of the years ended 31 December 2009 and 31 December 2010 amounted to RMB4,000 (equivalent to approximately HK\$5,000). The Target Group has not commenced business for the two years ended 31 December 2009 and 31 December 2010. As of 31 December 2010, the unaudited consolidated net asset value of the Target Group was RMB17,960,000 (equivalent to approximately HK\$21,498,000).

Upon Completion, the Company through a PRC Domestic Enterprise will be interested in 90% of the equity interest of the Target Company, which holds 60% equity interest in the Target Operator (the remaining 40% interest in Target Operator will be held by Independent Third Parties). Both the Target Company and the Target Operator will become a non wholly-owned subsidiary of the Company and the financial results of both companies will be fully consolidated into the financial statements of the Group upon Completion.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally 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. As underpinned in the 2011 annual report of the Company for the year ended 31 March 2011, the Company has been prudently, actively identifying and pursuing potential projects with immense development potentials to broaden the income base of the Group and increase shareholders' value. The Board considers that the Group should continue to leverage its resources in exploring opportunities in industries with high entry barriers but favoured by the PRC government policies.

Rare earth is widely recognized as rare and strategic resources worldwide. Its applications are broad for industrial and consumer markets, and rare earth is indispensable for many products, especially high-technology and green energy technology products. Recent research reports suggest that the demand for rare earth will continue to grow in the coming years. Prices of the rare earth products have seen continuing increases since year 2010.

The PRC government has indicated its long term policy since late 2010, to encourage market consolidation and substantially reduce the price differentials between domestic rare earth product prices in the PRC vis a vis FOB (free on board) prices for the same or similar products in the international market.

As far as the Board is aware, market consolidation is favoured by the PRC government with a view to improving industrial safety and environmental standards as well as bringing in better technologies to improve overall production efficiency for the industry and deepen the range of rare earth products that the PRC can produced.

LETTER FROM THE BOARD

To the knowledge of the Directors, the current price differential between domestic rare earth products in the PRC and FOB prices for the same or similar products in the international market is substantial. For instance, the price of Cerium oxide, being the major and most consumed rare earth element worldwide, for domestic market was about RMB157,500 per tonne at the end of April 2011 and the FOB price for the same product in the international market was about US\$134,000 per tonne (equivalent to about RMB872,000), which is over 5 times of the domestic prices; the price of Cerium oxide went up to about RMB177,500 per tonne at the end of July 2011 and its FOB price in the international market increased to about US\$158,000 per tonne (equivalent to about RMB1,018,000), which is over 5 times of the domestic price. It is our belief that following the PRC government policies, such price differential will narrow in the coming future and will present additional opportunities for the Group in addition to the substantial increase in demand for rare earth products.

Through the Acquisition, the Group will be able to engage itself in the rare earth refinery and processing business through the Target Operator whose Rare Earth Refinery Plant is located in Sichuan Province, the PRC, the second largest rare earth production region in the PRC. To the best knowledge of the Company after having made reasonable enquiries with the Vendor, the existing management team in the Target Operator mainly consists of (i) a general manager, who has over 7 years of experience in the management roles in rare earth refinery business in the PRC; (ii) a chief engineer, who has about 33 years of experience in the rare earth industry in the PRC; and (iii) two deputy general managers, one of whom has been engaged in polishing powder production operations since 2002 and the other one with experience in the roles of engineer and plant manager for about 19 years. It is the intention of the Group that all the staff of the Target Group will be retained after the Completion. The Group also has an in-house management team with expertise in the rare earth area and with capabilities to manage the Rare Earth Refinery Plant. The Board considers that the existing management expertise will ensure continual development and expansion of the rare earth refinery and processing business in the coming future.

The Board considers that the terms of the Sale and Purchase Agreement are fair and reasonable and that the Acquisition will diversify its businesses, further strengthen and enhance its cash flow, and increase profitability for the Group in the long run, and is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, both the Target Company and the Target Operator will become non wholly-owned subsidiaries of the Company and the financial results of both companies will be fully consolidated into the financial statements of the Group.

LETTER FROM THE BOARD

As extracted from the Unaudited Pro Forma Financial Information as contained in Appendix IV to this circular, the audited consolidated total assets and total liabilities of the Group as at 31 March 2011 were approximately HK\$204,748,000 and HK\$99,606,000. Upon Completion, the Enlarged Group's unaudited consolidated total assets and total liabilities will increase to approximately HK\$448,258,000 and HK\$143,076,000 respectively.

The aforementioned estimations are for illustrative purpose only and do not purport to represent how the financial position of the Enlarged Group will be upon Completion.

In light of the potential prospects of the Target Group, which will lay the foundation of the Enlarged Group to become one of the major players in the rare earth refinery and processing industry in the PRC, the Directors are of the view that the Acquisition will likely to have a positive impact on the earnings of the Enlarged Group.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Pursuant to Chapter 14 of the Listing Rules, the Sale and Purchase Agreement and the transactions contemplated thereunder are therefore subject to the reporting, announcement and Shareholders' approval requirements.

Under Rule 14.62(3) of the Listing Rules, Ample Capital has been appointed as the financial adviser in the review of the profit forecast in relation to the valuation report dated 24 August 2011 prepared by Roma Appraisals Limited, as set out in Appendix VI to this circular.

SPECIAL GENERAL MEETING

A notice convening the SGM to be held at Unit 3411, 34/F., COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong, on Thursday, 8 September 2011 at 4:30 p.m. is set out on pages 108 to 109 of this circular. An SGM will be convened and held to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Further announcement on the results of the poll vote will be made by the Company after the SGM.

LETTER FROM THE BOARD

A form of proxy for use in the SGM is enclosed with this circular. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as practicable but in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

To the best of Directors' knowledge, information and belief, having made all reasonable enquiries, none of the Vendor and his respective associates hold any Shares as at the Latest Practicable Date and no Shareholder has any material interest in the Acquisition. Therefore, no Shareholder is required to abstain from voting at the SGM on the resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

RECOMMENDATION

The Board considers that the transactions contemplated under the Sale and Purchase Agreement is on normal commercial terms and the terms of the Sale and Purchase Agreement is fair and reasonable and are in the interests of the Company and its Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is also drawn to the information as set out in the Appendices to this circular.

Yours faithfully,
By order of the Board
CHINA GAMMA GROUP LIMITED
Ho Chi Ho
Executive Director

1. THREE YEARS FINANCIAL INFORMATION

Financial information of the Group for each of the three years ended 31 March 2011, 2010 and 2009 are disclosed on pages 41 to 150 of annual report 2011 of the Company, pages 41 to 154 of annual report 2010 of the Company and pages 37 to 135 of annual report 2009 of the Company respectively, which are published on the website of the Stock Exchange (www.hkexnews.hk).

2. INDEBTEDNESS

As at the close of business on 30 June 2011, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had outstanding indebtedness of approximately HK\$84,835,000, comprising secured bank borrowing of approximately HK\$9,620,000, amount due to a non-controlling shareholder of a subsidiary of approximately HK\$20,892,000 and amount due to an equity holder of the Target Operator of approximately HK\$54,323,000.

As at 30 June 2011, the Group had pledged a leasehold building and land use rights with carrying value of approximately HK\$3,652,000 and HK\$12,235,000 respectively to secure the bank loan granted to the Group.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, at the close of business on 30 June 2011, the Enlarged Group did not have any outstanding indebtedness, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgagees, charges, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 30 June 2011.

3. WORKING CAPITAL

Taking into account the internally generated funds, the presently available credit facilities, the proceeds from the Subscription CN and equity and/or debt financing, the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements, that is for at least 12 months from the date of this circular, in the absence of unforeseeable circumstances. In forming such opinion, the Directors have considered the impact on the Enlarged Group's cash flow position resulting from the future equity and/or debt financing, as well as the requirements of the investment banks and the PRC banks relating to the proposed placing arrangements and loan facilities, respectively, from the Company's negotiations with such parties.

4. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group is principally 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.

The Company has been prudently, actively identifying and pursuing potential projects with immense development potentials to broaden the income base of the Group and increase shareholders' value. The Group focuses on leveraging its resources in exploring opportunities in industries with high entry barriers but favoured by the PRC government policies.

The Directors consider that the Target Group is positioned to benefit from the growing demand in rare earth products worldwide which have broad applications in industrial and consumer related industries including high-technology and green energy technologies. The Acquisition provides an opportunity for the Group to diversify its scope of business and to enter into an industry with high growth potentials. The Directors are of the view that the Acquisition is beneficial to the Enlarged Group and the Shareholders as a whole and will potentially broaden its income base and improve its overall financial performance of the Enlarged Group.

As announced by the Company on 3 May 2011, the Group has entered into a memorandum of understanding for the proposed acquisition of all the issued share capital of Park Target Limited at a consideration of HK\$350,000,000 in relation to a vanadium mining project. The aforesaid proposed acquisition will be subject to the execution and completion of the formal sale and purchase agreement, which is conditional upon the satisfaction of certain conditions including the Group having received the relevant reserve report, feasibility study report, technical report and valuation report in respect of the vanadium mines. As at the Latest Practicable Date, such reports are still under preparation and no formal sale and purchase agreement has been executed.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2011, the date to which the latest published audited financial statements of the Group were made up.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Ting Ho Kwan & Chan, Certified Public Accountants (Practising), Hong Kong.

TING HO KWAN & CHAN
CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)

9th Floor, Tung Ning Building
249-253 Des Voeux Road Central
Hong Kong



24 August 2011

The Board of Directors

China Gamma Group Limited

Unit 3411, 34/F., COSCO Tower,
Grand Millennium Plaza,
183 Queen's Road Central,
Hong Kong.

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information (the "Financial Information") of Yunnan He Da Investments Company Limited* (雲南和達投資有限公司) (formerly Yunnan He Da Mining Company Limited* (雲南和達礦業有限公司)) (the "Target Company") including the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows of the Target Company for each of the three years ended 31 March 2009, 2010 and 2011 (the "Relevant Periods") and the balance sheets of the Target Company as at 31 March 2009, 2010 and 2011 together with the explanatory notes thereto for inclusion in the shareholders' circular of China Gamma Group Limited (the "Company") dated 24 August 2011 (the "Circular") in connection with the proposed acquisition of the 90% equity interest in the Target Company by Beijing Gamma Corporate Management Company Limited* (北京伽瑪企業管理有限公司), a wholly-owned subsidiary of the Company.

The Target Company was established in the PRC on 8 November 2006 as a limited liability company and has not yet commenced business.

The financial statements of the Target Company for the years ended 31 March 2009, 2010 and 2011 have been prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC and were audited in accordance with Independent Auditing Standards for Chinese Certified Public Accountants by BDO China Li Xin Da Hua CPAs, certified public accountants registered in the PRC.

The director of the Target Company has prepared the financial statements of the Target Company for the Relevant Periods from the audited financial statements under relevant accounting principles and regulations applicable to enterprises established in the PRC after making such adjustments as are appropriate to comply with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). The Underlying Financial Statements for the Relevant Periods were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA.

OPINION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the Target Company’s results and cash flows for the Relevant Periods and the state of affairs of the Target Company as at 31 March 2009, 2010 and 2011.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

I. FINANCIAL INFORMATION**1. Income statements**

		Year ended 31 March		
		2009	2010	2011
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	5	–	–	–
Administrative expenses		<u>(5)</u>	<u>(5)</u>	<u>(5)</u>
Loss for the year	6	<u><u>(5)</u></u>	<u><u>(5)</u></u>	<u><u>(5)</u></u>

2. Statements of comprehensive income

	<i>Note</i>	Year ended 31 March		
		2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Loss for the year	6	(5)	(5)	(5)
Other comprehensive income for the year				
Exchange differences on translation of financial statements		<u>238</u>	<u>39</u>	<u>498</u>
Total comprehensive income for the year		<u><u>233</u></u>	<u><u>34</u></u>	<u><u>493</u></u>

3. Balance sheets

		As at 31 March		
		2009	2010	2011
	Notes	HK\$'000	HK\$'000	HK\$'000
Current Asset				
Other receivable	9	11,337	11,376	11,876
Current Liabilities				
Other payables	10	<u>36</u>	<u>41</u>	<u>48</u>
Net Assets		<u>11,301</u>	<u>11,335</u>	<u>11,828</u>
Capital and Reserve				
Paid-up capital	11	10,142	10,142	10,142
Exchange reserve	12	1,193	1,232	1,730
Accumulated losses		<u>(34)</u>	<u>(39)</u>	<u>(44)</u>
Total Equity		<u>11,301</u>	<u>11,335</u>	<u>11,828</u>

4. Statements of changes in equity

	Paid-up capital <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2008	10,142	(29)	955	11,068
Total comprehensive (expense) income for the year	<u>–</u>	<u>(5)</u>	<u>238</u>	<u>233</u>
At 31 March 2009 and 1 April 2009	10,142	(34)	1,193	11,301
Total comprehensive (expense) income for the year	<u>–</u>	<u>(5)</u>	<u>39</u>	<u>34</u>
At 31 March 2010 and 1 April 2010	10,142	(39)	1,232	11,335
Total comprehensive (expense) income for the year	<u>–</u>	<u>(5)</u>	<u>498</u>	<u>493</u>
At 31 March 2011	<u><u>10,142</u></u>	<u><u>(44)</u></u>	<u><u>1,730</u></u>	<u><u>11,828</u></u>

5. Statements of cash flows

	Year ended 31 March		
	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating activities			
Loss for the year	<u>(5)</u>	<u>(5)</u>	<u>(5)</u>
Operating cash outflow before changes in working capital	(5)	(5)	(5)
Increase in other payables	<u>5</u>	<u>5</u>	<u>5</u>
Net cash generated from operating activities	<u>–</u>	<u>–</u>	<u>–</u>
Cash and cash equivalents at beginning and end of the years	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

II. NOTES TO THE FINANCIAL INFORMATION

1. General information

Yunnan He Da Investments Company Limited* (雲南和達投資有限公司) (formerly Yunnan He Da Mining Company Limited* (雲南和達礦業有限公司)) (the “Target Company”) is a limited liability company incorporated in the PRC. The address of its registered office and its principal place of business is Complex Building, Air Force Hostel, No. 736 Beijing Road, Kunming, the PRC* (中國昆明市北京路736號空軍招待所院內綜合樓).

The Target Company has not yet commenced business. Upon completion of the transfer of the 60% equity interest of Mianning Mao Yuan Rare Earth Technology Company Limited* (冕寧縣茂源稀土科技有限公司) (the “Target Operator”) from Mr. Hu Zhengzhi* (胡征志先生) to the Target Company, the Target Company will hold 60% equity interest in the Target Operator.

The Financial Information of the Target Company is presented in Hong Kong dollars (“HK\$”), whereas the functional currency of the Target Company is Renminbi (“RMB”).

2. Significant accounting policies

Statement of compliance

The Financial Information set out in this report has been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. Further details of the significant accounting policies adopted are set out in the remainder of this note.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Target Company has adopted all these new and revised HKFRSs for the Relevant Periods, except for any new standards or interpretations that are not yet effective for the Relevant Periods. The new and revised accounting standards and interpretations issued but not yet effective for the accounting period ended 31 March 2011 are set out in note 17.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***2. Significant accounting policies** *(Continued)****Basis of measurement***

The Financial Information has been prepared under the historical cost convention.

Use of estimates and judgements

The preparation of Financial Information in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the Financial Information are disclosed in note 3 to the Financial Information.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

(a) Revenue recognition

No turnover was generated during the Relevant Periods.

(b) Foreign currency translation***(i) Functional and presentation currency***

Items included in the Financial Information are measured using the currency of the primary economic environment in which the Target Company operates (the “Functional Currency”). The Financial Information is presented in Hong Kong Dollars (“HK\$”), which is the Target Company’s presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. All resulting exchange differences are recognised in profit or loss.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***2. Significant accounting policies** *(Continued)***(b) Foreign currency translation** *(Continued)***(iii) Translation of the Financial Information to presentation currency**

The results and financial position of the Target Company have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently carried at amortised cost using the effective interest method. They arise when the Target Company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Target Company's loans and receivables comprise "Other receivable" in the balance sheet.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***2. Significant accounting policies** *(Continued)***(d) Other receivables**

Other receivables are initially recognised at fair value and, after initial recognition, at amortised cost less any allowance for impairment of bad and doubtful debts, except for the following receivables:

- interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less any allowance for impairment of bad and doubtful debts; and
- short term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount less any allowance for impairment of bad and doubtful debts.

(e) Impairment of assets*Impairment of other receivables*

Other receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest are computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***2. Significant accounting policies** *(Continued)***(f) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(g) Other payables

Other payables are initially measured at fair value and, are subsequently stated at amortised cost except for the following payables:

- short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount; and
- interest free loans from related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost.

(h) Income tax

Income tax for the Relevant Periods (if any) comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Deferred tax (if any) is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using the tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***2. Significant accounting policies** *(Continued)***(h) Income tax** *(Continued)*

Deferred tax assets (if any) are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(i) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(j) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Target Company if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Target Company or exercise significant influence over the Target Company in making financial and operating policies decisions, or has joint control over the Target Company;
- (ii) the Target Company and the party are subject to common control;
- (iii) the party is an associate of the Target Company or a joint venture in which the Target Company is a venturer;

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***2. Significant accounting policies** *(Continued)***(j) Related parties** *(Continued)*

- (iv) the party is a member of the key management personnel of the Target Company or the Target Company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Target Company or of any entity that is a related party of the Target Company.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the Target Company.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Capital risk management

The Target Company's objectives of managing capital are to safeguard the Target Company's ability to continue as a going concern in order to provide adequate returns for equity holders in the long term and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Company may adjust the amount of dividends paid to equity holders, increase registered capital or sell assets to reduce debt.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***3. Critical accounting estimates and judgements** *(Continued)****Capital risk management*** *(Continued)*

Consistent with others in the industry, the Target Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as total equity plus net debt. The Target Company's policy is to keep the gearing ratio at a reasonable level.

4. Financial risk management

The Target Company's activities expose it to a variety of financial risks: foreign currency risk, credit risk and liquidity risk. The Target Company's overall risk management objectives and policies mainly focus on minimising the potential adverse effects of these risks by closely monitoring the individual exposure as follows:

(a) Foreign currency risk

The Target Company has no significant exposure to foreign currency risk as substantially all of transactions are denominated in their functional currency to which they relate.

(b) Credit risk

The carrying amount of other receivable represents the maximum exposure of the Target Company to the credit risk in relation to financial assets as at each balance sheet date.

(c) Liquidity risk

The Target Company's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*4. Financial risk management *(Continued)**(c) Liquidity risk (Continued)*

The remaining contractual maturities at the balance sheet date of the Target Company's financial liabilities are all due within one year or are repayable on demand. The total contractual undiscounted cash outflows of the Target Company's financial liabilities are the same as their carrying values.

(d) Fair values

The carrying amounts of the Target Company's financial assets and financial liabilities as reflected in the balance sheets approximate to their respective fair values.

5. Turnover and other income

The Target Company did not have any turnover during the Relevant Periods.

6. Loss for the year

	Year ended 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
Loss for the year is stated after charging:			
Auditor's remuneration	–	–	–
Staff costs			
– director's remuneration <i>(note 7)</i>	5	5	5
– basic salaries and other benefits	–	–	–
– retirement benefits scheme contribution	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>

II. NOTES TO THE FINANCIAL INFORMATION (Continued)

7. Director's remuneration

Director's remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

Name of director	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement benefits scheme contribution <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 March 2009				
Mr. Hu Zhengzhi* (胡征志先生)	–	5	–	5
Year ended 31 March 2010				
Mr. Hu Zhengzhi* (胡征志先生)	–	5	–	5
Year ended 31 March 2011				
Mr. Hu Zhengzhi* (胡征志先生)	–	5	–	5

The emoluments of the five highest paid individuals fell within the emolument band of Nil to HK\$1,000,000.

During the Relevant Periods, no director waived or agreed to waive any emolument and no emoluments were paid by the Target Company to the director of the Target Company as an inducement to join or upon joining the Target Company or as compensation for loss of office.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

8. Income tax

No provision for the PRC Enterprise Income Tax is made in the financial statements as the Target Company did not have any assessable income during the Relevant Periods.

No deferred tax has been provided for the Relevant Periods as there are no material temporary differences.

The reconciliation between the income tax expense and the loss before tax multiplied by the applicable PRC Enterprise Income Tax rate is as follows:

	Year ended 31 March		
	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before tax	(5)	(5)	(5)
Tax at the domestic tax rate of 25%	(1)	(1)	(1)
Tax effect of tax loss not recognised for the year	1	1	1
Income tax expense	–	–	–

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

II. NOTES TO THE FINANCIAL INFORMATION (Continued)**9. Other receivable**

	As at 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
Amount due from a director (<i>note 13</i>)	11,337	11,376	11,876

The amount due from a director is unsecured, interest free and without indication of repayment date. This amount advanced to a director as at 31 March 2011 will be used to acquire Mianning Mao Yuan Rare Earth Technology Company Limited* (冕寧縣茂源稀土科技有限公司) for the Target Company.

The director considers that the carrying amount of other receivable approximates to its fair value.

10. Other payables

	As at 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
Other payables and accruals	36	41	48

The director considers that the carrying amount of other payables approximates to their fair values.

II. NOTES TO THE FINANCIAL INFORMATION (Continued)

11. Paid-up capital

	Amount	
	RMB'000	HK\$'000
Registered:		
At 1 April 2008, 31 March 2009, 31 March 2010 and 31 March 2011	<u>10,000</u>	
Paid-up:		
At 1 April 2008, 31 March 2009, 31 March 2010 and 31 March 2011	<u>10,000</u>	<u>10,142</u>

12. Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the Target Company's Financial Information from functional currency to presentation currency. The reserve is dealt with in accordance with the accounting policy set out in note 2(b).

13. Relevant loan

- (a) Particulars of loan to a director, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Balance at 1.4.2009	Balance at 1.4.2010	Balance at 31.3.2011	Maximum balance outstanding 2011	Maximum balance outstanding 2010	Maximum balance outstanding 2009
Balance at 1.4.2008	and 31.3.2009	and 31.3.2010				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Hu Zhengzhi* (胡征志先生)	<u>11,099</u>	<u>11,337</u>	<u>11,376</u>	<u>11,876</u>	<u>11,376</u>	<u>11,337</u>

- (b) Form of loan: In the form of current account advances.
- (c) Term of loan: Free of interest, unsecured and repayable on demand.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***14. Transaction and balance with a related party**

The Target Company had the following transaction and balance with a related party for the years ended 31 March 2009, 2010 and 2011:

	Year ended 31 March		
	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Key management compensation	<u>5</u>	<u>5</u>	<u>5</u>
Amount due from a director	<u>11,337</u>	<u>11,376</u>	<u>11,876</u>

The director of the Target Company is of the opinion that the above transaction was entered into at terms agreed by both parties. The balance is unsecured, interest free and without indication of repayment date.

15. Ultimate Controlling Party

At 31 March 2011, the director of the Target Company considers that the ultimate controlling party of the Target Company to be Mr. Hu Zhengzhi* (胡征志先生).

16. Contingent liabilities

The Target Company did not have any significant contingent liabilities as at 31 March 2011.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***17. Possible impact of new standards, amendments to standards and interpretations issued but not yet effective for the relevant periods**

Up to the date of issue of the Financial Information, the HKICPA has issued a number of new standards, amendments to standards and interpretations which are not yet effective for the Relevant Periods and which have not been adopted in the Financial Information.

		Effective for annual periods beginning on or after
HKAS 24 (Revised)	Related party disclosures	1 January 2011
HKFRS 9	Financial instruments	1 January 2013
Improvements to HKFRS (2010)		1 July 2010 or 1 January 2011
Amendments to HKAS 12	Income taxes	1 January 2012
HKAS 27 (2011)	Separate financial statements	1 January 2013
HKAS 28 (2011)	Investments in associates and joint ventures	1 January 2013
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKFRS 12	Disclosure of interests in other entities	1 January 2013

The directors of the Company have confirmed that the Target Company has commenced considering the potential impact of the above new standards, amendments to standards and interpretations but is not yet in a position to determine whether these new standards, amendments to standards and interpretations will have a significant impact on how the results of operations and financial position are prepared and presented. These new standards, amendments to standards and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

III. SUBSEQUENT EVENTS

On 13 April 2011 the name of the Target Company has been changed from Yunnan He Da Mining Company Limited* (雲南和達礦業有限公司) to 雲南和達投資有限公司 (“Yunnan He Da Investments Company Limited”).

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 March 2011.

Yours faithfully,

Ting Ho Kwan & Chan

Certified Public Accountants (Practising)

* *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.*

APPENDIX III FINANCIAL INFORMATION OF THE TARGET OPERATOR

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Ting Ho Kwan & Chan, Certified Public Accountants (Practising), Hong Kong.

TING HO KWAN & CHAN
CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)

9th Floor, Tung Ning Building
249-253 Des Voeux Road Central
Hong Kong



24 August 2011

The Board of Directors
China Gamma Group Limited
Unit 3411, 34/F., COSCO Tower,
Grand Millennium Plaza,
183 Queen's Road Central,
Hong Kong.

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information of Mianning Mao Yuan Rare Earth Technology Company Limited* (冕寧縣茂源稀土科技有限公司) (the "Target Operator") including the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows of the Target Operator for the period from 12 June 2010 (date of incorporation) to 31 March 2011 (the "Relevant Period") and the balance sheet of the Target Operator as at 31 March 2011 together with the explanatory notes thereto (the "Financial Information"), for inclusion in the shareholders' circular of China Gamma Group Limited (the "Company") dated 24 August 2011 (the "Circular") in connection with the proposed acquisition of the 60% indirect equity interest in the Target Operator by Beijing Gamma Corporate Management Company Limited* (北京伽瑪企業管理有限公司), a wholly-owned subsidiary of the Company.

The Target Operator was established in the PRC on 12 June 2010 as a limited liability company and principally engaged in the refinery and processing of rare earth elements into products which have broad applications in industrial and consumer related industries including high-technology and green energy technologies.

APPENDIX III FINANCIAL INFORMATION OF THE TARGET OPERATOR

The financial statements of the Target Operator for the period from 12 June 2010 (date of incorporation) to 31 March 2011 have been prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC and were audited in accordance with Independent Auditing Standards for Chinese Certified Public Accountants by BDO China Li Xin Da Hua CPAs, certified public accountants registered in the PRC.

The director of the Target Operator has prepared the financial statements of the Target Operator for the Relevant Period from the audited financial statements under relevant accounting principles and regulations applicable to enterprises established in the PRC after making such adjustments as are appropriate to comply with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). The Underlying Financial Statements for the Relevant Period were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

APPENDIX III FINANCIAL INFORMATION OF THE TARGET OPERATOR

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA.

OPINION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the Target Operator’s results and cash flows for the Relevant Period and the state of affairs of the Target Operator as at 31 March 2011.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 3 of Section I to the Financial Information which indicates that the Target Operator had net current liabilities of HK\$29,475,000 as at 31 March 2011. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Target Operator’s ability to continue as a going concern.

APPENDIX III FINANCIAL INFORMATION OF THE TARGET OPERATOR

I. FINANCIAL INFORMATION**1. Income statement**

	<i>Notes</i>	Period from 12 June 2010 (date of incorporation) to 31 March 2011 HK\$'000
Turnover	5	–
Administrative expenses		–
Profit for the period	6	<u>–</u>

2. Statement of comprehensive income

	<i>Note</i>	Period from 12 June 2010 (date of incorporation) to 31 March 2011 HK\$'000
Profit for the period	6	–
Other comprehensive income		–
Total comprehensive income for the period		<u>–</u>

APPENDIX III FINANCIAL INFORMATION OF THE TARGET OPERATOR

I. FINANCIAL INFORMATION *(Continued)***3. Balance sheet**

	<i>Notes</i>	As at 31 March 2011 HK\$'000
Non-Current Assets		
Property, plant and equipment	9	<u>53,228</u>
Current Assets		
Other receivables	10	12,588
Cash and cash equivalents	11	<u>359</u>
		12,947
Current Liabilities		
Other payables	12	<u>42,422</u>
Net Current Liabilities		<u>(29,475)</u>
Net Assets		<u><u>23,753</u></u>
Equity		
Paid-up capital	13	<u>23,753</u>
Total Equity		<u><u>23,753</u></u>

APPENDIX III FINANCIAL INFORMATION OF THE TARGET OPERATOR

I. FINANCIAL INFORMATION *(Continued)***4. Statement of changes in equity**

	Paid-up capital <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 12 June 2010 (date of incorporation)	4,751	–	4,751
Capital contribution on 18 January 2011	19,002	–	19,002
Total comprehensive income for the period	–	–	–
At 31 March 2011	<u>23,753</u>	<u>–</u>	<u>23,753</u>

APPENDIX III FINANCIAL INFORMATION OF THE TARGET OPERATOR

I. FINANCIAL INFORMATION *(Continued)***5. Statement of cash flows**

	Period from 12 June 2010 (date of incorporation) to 31 March 2011 HK\$'000
Operating activities	
Profit for the period	—
Operating cash outflow before changes in working capital	—
Increase in other receivables	(12,588)
Increase in other payables	42,422
Net cash generated from operating activities	<u>29,834</u>
Investing activities	
Purchase of property, plant and equipment	<u>(53,228)</u>
Net cash used in investing activities	<u>(53,228)</u>
Financing activities	
Capital contributions	<u>23,753</u>
Net cash generated from financing activities	<u>23,753</u>
Net change in cash and cash equivalents	359
Cash and cash equivalents at beginning of the period	—
Cash and cash equivalents at end of the period	<u><u>359</u></u>

II. NOTES TO THE FINANCIAL INFORMATION**1. General information**

Mianning Mao Yuan Rare Earth Technology Company Limited* (冕寧縣茂源稀土科技有限公司) (the “Target Operator”) is a limited liability company domiciled and incorporated in the PRC. The address of its registered office is Industrial Park, Fuxing Town, Mianning County, Liangshan Yi Autonomous Prefecture, Sichuan Province, the PRC* (中國四川省涼山彝族自治州冕寧縣復興鎮工業園區).

The Target Operator has not yet commenced business.

The Financial Information of the Target Operator is presented in Hong Kong dollars (“HK\$”), whereas the functional currency of the Target Operator is Renminbi (“RMB”).

2. Significant accounting policies***Statement of compliance***

The Financial Information set out in this report has been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. Further details of the significant accounting policies adopted are set out in the remainder of this note.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Target Operator has adopted all these new and revised HKFRSs for the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 March 2011. The new and revised accounting standards and interpretations issued but not yet effective for the accounting period ended 31 March 2011 are set out in note 18.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***2. Significant accounting policies** *(Continued)****Basis of measurement***

The Financial Information has been prepared under the historical cost convention.

Use of estimates and judgements

The preparation of Financial Information in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the Financial Information are disclosed in note 3 to the Financial Information.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

(a) Revenue recognition

No turnover was generated during the Relevant Period.

(b) Foreign currency translation***(i) Functional and presentation currency***

Items included in the Financial Information are measured using the currency of the primary economic environment in which the Target Operator operates (the “Functional Currency”). The Financial Information is presented in Hong Kong Dollars (“HK\$”), which is the Target Operator’s presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. All resulting exchange differences are recognised in profit or loss.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***2. Significant accounting policies** *(Continued)***(b) Foreign currency translation** *(Continued)***(iii) Translation of the Financial Information to presentation currency**

The results and financial position of the Target Operator have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

(c) Property, plant and equipment

Construction in progress represents buildings, structures, plant and machinery and other fixed assets under construction or installation and is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowings costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

(d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently carried at amortised cost using the effective interest method. They arise when the Target Operator provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Target Operator's loans and receivables comprise "Other receivables" and "Cash and cash equivalents" in the balance sheet.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***2. Significant accounting policies** *(Continued)**(e) Other receivables*

Other receivables are initially recognised at fair value and, after initial recognition, at amortised cost less any allowance for impairment of bad and doubtful debts, except for the following receivables:

- interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less any allowance for impairment of bad and doubtful debts; and
- short term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount less any allowance for impairment of bad and doubtful debts.

*(f) Impairment of assets**(i) Impairment of other receivables*

Other receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest are computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***2. Significant accounting policies** *(Continued)***(f) Impairment of assets** *(Continued)***(ii) Impairment of other assets**

Internal and external sources of information are reviewed at each balance sheet date to identify indicators that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– Property, plant and equipment

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generated unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generated units (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***2. Significant accounting policies** *(Continued)***(f) Impairment of assets** *(Continued)***(ii) Impairment of other assets** *(Continued)*

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(h) Other payables

Other payables are initially measured at fair value and, are subsequently stated at amortised cost except for the following payables:

- short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount; and
- interest free loans from related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***2. Significant accounting policies** *(Continued)***(i) Income tax**

Income tax for the Relevant Period (if any) comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Deferred tax (if any) is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using the tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets (if any) are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(j) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Operator has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***2. Significant accounting policies** *(Continued)***(k) Related parties**

For the purposes of the Financial Information, a party is considered to be related to Target Operator if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Target Operator or exercise significant influence over the Target Operator in making financial and operating policies decisions, or has joint control over the Target Operator;
- (ii) the Target Operator and the party are subject to common control;
- (iii) the party is an associate of the Target Operator or a joint venture in which the Target Operator is a venturer;
- (iv) the party is a member of the key management personnel of the Target Operator or the Target Operator's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Target Operator or of any entity that is a related party of the Target Operator.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the Target Operator.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***3. Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Capital risk management

The Target Operator's objectives of managing capital are to safeguard the Target Operator's ability to continue as a going concern in order to provide adequate returns for equity holders in the long term and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Operator may adjust the amount of dividends paid to equity holders, increase registered capital or sell assets to reduce debt.

Consistent with others in the industry, the Target Operator monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as total equity plus net debt. The Target Operator's policy is to keep the gearing ratio at a reasonable level.

4. Financial risk management

The Target Operator's activities expose it to a variety of financial risks: foreign currency risk, credit risk and liquidity risk. The Target Operator's overall risk management objectives and policies mainly focus on minimising the potential adverse effects of these risks by closely monitoring the individual exposure as follows:

(a) Foreign currency risk

The Target Operator has no significant exposure to foreign currency risk as substantially all of transactions are denominated in their functional currency to which they relate.

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***4. Financial risk management** *(Continued)**(b) Credit risk*

The carrying amounts of cash and cash equivalents and other receivables except for prepayments represents the maximum exposure of the Target Operator to the credit risk in relation to the financial assets as at 31 March 2011.

(c) Liquidity risk

The Target Operator's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The remaining contractual maturities at the balance sheet date of the Target Operator's financial liabilities are all due within one year or are repayable on demand. The total contractual undiscounted cash outflows of the Target Operator's financial liabilities are the same as their carrying values.

(d) Fair values

The carrying amounts of the Target Operator's financial assets and financial liabilities as reflected in the balance sheet approximate to their respective fair values.

5. Turnover

The Target Operator has not carried on any business since the date of incorporation, and accordingly, the Target Operator did not have any turnover during the Relevant Period.

APPENDIX III FINANCIAL INFORMATION OF THE TARGET OPERATOR

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***6. Profit for the period**

**Period from
12 June 2010
(date of
incorporation)
to 31 March
2011
HK\$'000**

Profit for the period is stated after charging:

Auditors' remuneration	–
Director's remuneration	–
Staff costs	–
	<u>–</u>

7. Director's remuneration

None of the directors received or will receive any fees or emoluments in respect of their services to the Target Operator during the Relevant Period.

During the Relevant Period, the director did not waive or agreed to waive any emolument and no emoluments were paid by the Target Operator to the director of the Target Operator as an inducement to join or upon joining the Target Operator or as compensation for loss of office.

8. Income tax

No provision for the PRC Enterprise Income Tax is made in the financial statements as the Target Operator did not have any assessable income during the Relevant Period.

No deferred tax has been provided for the Relevant Period as there are no material temporary differences.

APPENDIX III FINANCIAL INFORMATION OF THE TARGET OPERATOR

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***9. Property, plant and equipment**

	Construction in progress <i>HK\$'000</i>
Cost	
Additions	53,228
At 31 March 2011	53,228
Accumulated depreciation	
Charge for the period	–
At 31 March 2011	–
Net book value	
At 31 March 2011	53,228

10. Other receivables

	<i>HK\$'000</i>
Deposits and prepayments	12,550
Other receivables	38
	12,588

The director considers that the carrying amount of other receivables approximates to their fair values.

APPENDIX III FINANCIAL INFORMATION OF THE TARGET OPERATOR

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

11. Cash and cash equivalents

	<i>HK\$'000</i>
Cash at bank and on hand	<u>359</u>

12. Other payables

	<i>HK\$'000</i>
Other payables	13,787
Amount due to a director	<u>28,635</u>
	<u>42,422</u>

The amount due to a director is unsecured, interest free and without indication of repayment date. The director considers that the carrying amount of other payables approximates to their fair values.

13. Paid-up capital

	Amount	
	<i>RMB'000</i>	<i>HK\$'000</i>
Registered:		
On incorporation and at 31 March 2011	<u>20,000</u>	
Paid-up:		
On incorporation	4,000	4,751
Capital contribution on 18 January 2011	<u>16,000</u>	<u>19,002</u>
At 31 March 2011	<u>20,000</u>	<u>23,753</u>

APPENDIX III FINANCIAL INFORMATION OF THE TARGET OPERATOR

II. NOTES TO THE FINANCIAL INFORMATION (Continued)**14. Transaction and balances with related parties**

The Target Operator had the following transaction and balances with related parties as at 31 March 2011:

	<i>HK\$'000</i>
Company controlled by a director:	
Purchase of property, plant and equipment	13,640
Amount due from the Target Operator	6,955
Amount due to a director	<u>28,635</u>

The director of the Target Operator is of the opinion that the above transaction was entered into at terms agreed by both parties. The balances are unsecured, interest free and without indication of repayment date.

15. Ultimate controlling party

At 31 March 2011, the director of the Target Operator considers that the ultimate controlling party of the Target Operator to be Mr. Gao Chenggang* (高成剛先生) .

16. Commitments

	<i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment and land use rights contracted for but not provided for in the Financial Information	<u>10,333</u>

17. Contingent liabilities

The Target Operator did not have any significant contingent liabilities as at 31 March 2011.

APPENDIX III FINANCIAL INFORMATION OF THE TARGET OPERATOR

II. NOTES TO THE FINANCIAL INFORMATION *(Continued)***18. Possible impact of new standards, amendments to standards and interpretations issued but not yet effective for the relevant period**

Up to the date of issue of the Financial Information, the HKICPA has issued a number of new standards, amendments to standards and interpretations which are not yet effective for the Relevant Period and which have not been adopted in the Financial Information.

		Effective for annual periods beginning on or after
HKAS 24 (Revised)	Related party disclosures	1 January 2011
HKFRS 9	Financial instruments	1 January 2013
Improvements to HKFRS (2010)		1 July 2010 or 1 January 2011
Amendments to HKAS 12	Income taxes	1 January 2012
HKAS 27 (2011)	Separate financial statements	1 January 2013
HKAS 28 (2011)	Investments in associates and joint ventures	1 January 2013
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKFRS 12	Disclosure of interests in other entities	1 January 2013

The directors of the Company have confirmed that the Target Operator has commenced considering the potential impact of the above new standards, amendments to standards and interpretations but is not yet in a position to determine whether these new standards, amendments to standards and interpretations will have a significant impact on how the results of operations and financial position are prepared and presented. These new standards, amendments to standards and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

APPENDIX III FINANCIAL INFORMATION OF THE TARGET OPERATOR

III. SUBSEQUENT EVENTS

There were no significant events taken place subsequent to 31 March 2011.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Operator in respect of any period subsequent to 31 March 2011.

Yours faithfully,

Ting Ho Kwan & Chan

Certified Public Accountants (Practising)

* *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.*

**(I) BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA STATEMENT OF
ASSETS AND LIABILITIES OF THE ENLARGED GROUP**

The accompanying unaudited pro forma statement of assets and liabilities of China Gamma Group Limited (the “Company”) and its subsidiaries (the “Group”) and Yunnan He Da Investments Company Limited (the “Target Company”) and Mianning Mao Yuan Rare Earth Technology Company Limited (the “Target Operator”) (hereinafter collectively referred to as the “Enlarged Group”) (the “Statement”) has been prepared to illustrate the effect of the Acquisition, assuming the transaction had been completed as at 31 March 2011.

The Statement is prepared based on the audited consolidated balance sheet of the Group as at 31 March 2011 as extracted from the annual report of the Group for the year ended 31 March 2011 and the audited balance sheets of the Target Company and the Target Operator as at 31 March 2011 as extracted from the Accountants’ Reports set out in Appendix II and Appendix III of the Circular respectively after making certain pro forma adjustments resulting from the Acquisition. The Financial Information of the Target Company, the Target Operator and the pro forma adjustments are translated from RMB to HK\$ at the rate of 0.842.

The Statement is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Statement, it may not give a true picture of the actual financial position of the Group that would have been attained had the Acquisition actually occurred on 31 March 2011. Furthermore, the Statement does not purport to predict the Group’s future financial position.

The Statement should be read in conjunction with the financial information of the Group as set out in Appendix I of the Circular, the Financial Information of the Target Company and the Target Operator as set out in Appendix II and Appendix III of the Circular and other financial information included elsewhere in the Circular.

APPENDIX IV
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**
**(II) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE
ENLARGED GROUP AS IF THE ACQUISITION HAD BEEN COMPLETED ON 31
MARCH 2011**

	The Group as at 31 March 2011 (Audited) HK\$'000 (note 1)	Target Company as at 31 March 2011 (Audited) HK\$'000 (note 2)	Target Operator as at 31 March 2011 (Audited) HK\$'000 (note 3)	Total HK\$'000	Pro forma adjustments			Enlarged Group HK\$'000
					HK\$'000 (note 4)	HK\$'000 (note 5)	HK\$'000 (note 6)	
Non-Current Assets								
Property, plant and equipment	33,804	–	53,228	87,032	–	–	–	87,032
Land use rights	12,201	–	–	12,201	–	–	–	12,201
Intangible asset	–	–	–	–	–	–	413,302	413,302
Goodwill	23,592	–	–	23,592	3,563	–	211,776	238,931
	<u>69,597</u>	<u>–</u>	<u>53,228</u>	<u>122,825</u>	<u>3,563</u>	<u>–</u>	<u>625,078</u>	<u>751,466</u>
Current Assets								
Inventories	32,777	–	–	32,777	–	–	–	32,777
Properties under development	41,897	–	–	41,897	–	–	–	41,897
Trade and other receivables	35,198	11,876	12,588	59,662	(11,876)	–	–	47,786
Financial assets at fair value through profit or loss	5,522	–	–	5,522	–	–	–	5,522
Cash and cash equivalents	19,757	–	359	20,116	–	–	(451,306)	(431,190) ^(note 7)
	<u>135,151</u>	<u>11,876</u>	<u>12,947</u>	<u>159,974</u>	<u>(11,876)</u>	<u>–</u>	<u>(451,306)</u>	<u>(303,208)</u>
Current Liabilities								
Trade and other payables	59,056	48	42,422	101,526	5,939	1,000	(5,939)	102,526
Amount due to a non- controlling shareholder of a subsidiary	20,827	–	–	20,827	–	–	–	20,827
Current taxation payable	79	–	–	79	–	–	–	79
	<u>79,962</u>	<u>48</u>	<u>42,422</u>	<u>122,432</u>	<u>5,939</u>	<u>1,000</u>	<u>(5,939)</u>	<u>123,432</u>
Net Current Assets (Liabilities)								
	<u>55,189</u>	<u>11,828</u>	<u>(29,475)</u>	<u>37,542</u>	<u>(17,815)</u>	<u>(1,000)</u>	<u>(445,367)</u>	<u>(426,640)</u>
Non-Current Liabilities								
Bank borrowing	9,501	–	–	9,501	–	–	–	9,501
Deferred taxation	10,143	–	–	10,143	–	–	–	10,143
	<u>19,644</u>	<u>–</u>	<u>–</u>	<u>19,644</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>19,644</u>
Net Assets	<u>105,142</u>	<u>11,828</u>	<u>23,753</u>	<u>140,723</u>	<u>(14,252)</u>	<u>(1,000)</u>	<u>179,711</u>	<u>305,182</u>

(III) NOTES:

- (1) The financial information of the Group is extracted from the published annual report of the Company for the year ended 31 March 2011.
- (2) The figures are extracted from the Financial Information set out in Appendix II to this Circular.
- (3) The figures are extracted from the Financial Information set out in Appendix III to this Circular.
- (4) **Group Restructuring**

Under the Group Restructuring which has been completed, an equity holder of the Target Operator has transferred 60% equity interest in the Target Operator to the Target Company at a consideration of RMB15,000,000 (equivalent to approximately HK\$17,815,000) which has been credited against an amount due from a director of the Target Company of RMB10,000,000 (equivalent to approximately HK\$11,876,000) and an additional loan of RMB5,000,000 (equivalent to approximately HK\$5,939,000) from such director.

A goodwill of HK\$3,563,000 has arisen as a result of the excess of the consideration of RMB15,000,000 (equivalent to approximately HK\$17,815,000) under the Group Restructuring over the Target Company's share of 60% of the net assets value of the Target Operator of HK\$14,252,000 as at 31 March 2011.

- (5) **Cost for the Acquisition**

Legal and professional fee of approximately HK\$1,000,000 has been accrued in respect of the Acquisition.

- (6) **Acquisition of 90% equity interest in the Target Company**

Pursuant to a sale and purchase agreement signed on 11 May 2011 between Mr. Hu Zhengzhi and Beijing Gamma Corporate Management Company Limited, a wholly-owned subsidiary of the Company, cash consideration of RMB380,000,000 (equivalent to approximately HK\$451,306,000) will be paid to Mr. Hu Zhengzhi for 90% equity interest in the Target Company on the conditions, inter alia, that the Target Company has obtained 60% equity interest in the Target Operator. On 1 July 2011, an equity holder of the Target Operator completed the transfer of 60% equity interest in the Target Operator to the Target Company (as mentioned in note (4) above). Upon completion of the above transactions, the Company becomes the ultimate holding company of both the Target Company and the Target Operator.

(6) Acquisition of 90% equity interest in the Target Company (Continued)

The pro forma adjustments reflect the following:

- The goodwill of HK\$211,776,000 represents the excess of the cash consideration of HK\$451,306,000 over the fair value of the net identifiable assets to be acquired of HK\$239,530,000 at 31 March 2011.

An analysis of the fair value of net assets acquired of the Acquisition is as follows:

	<i>HK\$'000</i>
Net assets of the Target Company	21,330
Investment in the Target Operator	(17,815)
Net assets of the Target Operator	<u>23,753</u>
Net carrying amount in the books of the Target Company	27,268
Fair value adjustment – intangible asset	<u>413,302</u>
Net identifiable assets	440,570
Non-controlling interests	<u>201,040</u>
Net identifiable assets to be acquired	<u><u>239,530</u></u>

- The net assets of the Target Company of HK\$21,330,000 shown in the above is the aggregate of the net assets of the Target Company before the completion of the Group Restructuring (note 4 above) of HK\$11,828,000, the Sale Loan of HK\$5,939,000 and a goodwill arising on acquisition of the Target Operator by the Target Company of HK\$3,563,000.
- The non-controlling interest of the Target Company and the Target Operator after the Group Restructuring (the “Target Group”) to be recognised in the pro forma financial information of the Enlarged Group is as follows:

	<i>HK\$'000</i>
Non-controlling interests of the Target Group:	
10% non-controlling interests of the Target Company	(5)
46% non-controlling interests of the Target Operator	<u>201,045</u>
Total	<u><u>201,040</u></u>

(6) Acquisition of 90% equity interest in the Target Company (Continued)

- The fair value adjustment on the intangible asset acquired (i.e. a technology to convert rare earth concentrate into products such as polishing powder, rare earth oxides and metals) of HK\$413,302,000 is determined by the directors of the Company with reference to the valuation report issued by Roma Appraisals Limited on 24 August 2011 which is set out in Appendix VI to this circular, an independent firm of professional valuers, where the basis of valuation adopted is income-based approach.
- The decrease of cash and cash equivalents of HK\$451,306,000, representing the cash consideration of RMB380,000,000 to be paid for the Acquisition.

In accordance with the accounting policies adopted by the Group, business combinations are accounted for using the acquisition method. The Group measures goodwill as the excess of the aggregate of the fair value of the consideration transferred over the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

An impairment test in respect of the goodwill acquired through a business combination conducted in accordance with HKAS 36 "Impairment of Assets" issued by the HKICPA involves the determination of the recoverable amount of the cash-generating unit to which the goodwill has been allocated, being the higher of the cash-generating unit's fair value less costs to sell and its value in use.

For the purpose of the preparation of the Statement, the directors of the Company consider the recoverable amount of the cash-generating unit to which the goodwill relates is greater than the carrying amount of such cash-generating unit. Accordingly, no impairment of goodwill existed as at 31 March 2011.

Since the fair values of the identifiable assets and liabilities of the Target Company and the Target Operator as at the date of completion of the transactions may be different from their fair values used in the preparation of this unaudited pro forma statement of assets and liabilities, the actual amount of goodwill may be different from those as shown above.

(7) The deficit in cash and cash equivalents was caused by the consideration payable for the Acquisition of RMB380 million (equivalent to approximately HK\$451 million). Such amount is included as consideration payable for the preparation of this Statement. It is currently expected that part of the Consideration will be satisfied by way of proceeds from the issue of the Subscription CN in the amount of HK\$105 million (as disclosed on page 3 of this Circular), and to satisfy the balance of the Consideration payable of approximately HK\$346 million by way of a combination of equity and/or debt financing raised or arranged by the Group. As of 31 March 2011, the Group held a property under development and certain properties held for sale with an aggregate valuation of approximately HK\$90 million. The Group is in the process of arranging for the realization of such properties and the proceeds from such realization may be applied towards the partial satisfaction of the Consideration payable. Should that happen, the total amount that needs to be raised by way of equity and/or debts as mentioned herein may therefore be reduced accordingly.

(8) Impairment assessment on the intangible asset of the Enlarged Group

The directors of the Company have assessed the recoverable amount of the cash-generating unit to which the intangible asset relate to, is greater than the carrying amount of such cash-generating unit, taking into account the independent valuation report as disclosed in Appendix VI to this Circular. Based on their assessment and the valuation report, the directors of the Company consider that there is no indication that the value of the intangible asset of the Enlarged Group is impaired.

The directors of the Company confirmed that the Company will adopt the accounting policies, principal assumptions and valuation method consistent with those used in the preparation of the unaudited pro forma financial information in assessing impairment of the Enlarged Group's goodwill and intangible asset in the future.

(9) Financial effect of the Acquisition

Upon Completion, both the Target Company and the Target Operator will become non wholly-owned subsidiaries of the Company and the financial results of both companies will be fully consolidated into the financial statements of the Group.

The unaudited consolidated total assets and total liabilities of the Enlarged Group as at 31 March 2011 will be increased from approximately HK\$204,748,000 to HK\$448,258,000 and from approximately HK\$99,606,000 to HK\$143,076,000 respectively.

In light of the potential prospects of the Target Group, the Directors are of the view that the Acquisition will likely to have a positive impact on the earnings of the Enlarged Group.

APPENDIX IV**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

The following is the text of a report, received from the independent reporting accountants, Ting Ho Kwan & Chan, Certified Public Accountants (Practising), Hong Kong, prepared for the sole purpose of incorporation in this circulars, in respect of the unaudited pro forma financial information of the Enlarged Group immediately after acquisition of the Target Group.

**TING HO KWAN & CHAN
CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)**

9th Floor, Tung Ning Building
249-253 Des Voeux Road Central
Hong Kong



24 August 2011

The Board of Directors

China Gamma Group Limited

Unit 3411, 34/F., COSCO Tower,
Grand Millennium Plaza,
183 Queen's Road Central,
Hong Kong.

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities (the "Statement") of China Gamma Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of the 90% direct interest in Yunnan He Da Investments Company Limited (the "Target Company") and 60% indirect interest in Mianning Mao Yuan Rare Earth Technology Company Limited (the "Target Operator") might have affected the assets and liabilities of the Group presented, for inclusion in Appendix IV to the circular of the Company dated 24 August 2011 (the "Circular"). The basis of preparation of the Statement is set out on pages 69 to 74 to the Circular.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND
REPORTING ACCOUNTANTS**

It is the responsibility solely of the directors of the Company to prepare the Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Statement with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Statement.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Statement has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Statement is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 March 2011 or at any future date.

OPINION

In our opinion:

- (a) the Statement has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

Ting Ho Kwan & Chan

Certified Public Accountants (Practising)

The Target Company is a company incorporated in the PRC on 8 November 2006 and is an investment holding company with no substantial operations save for incurring some administrative expenses for the three years ended 31 March 2009, 2010 and 2011.

The Target Operator is a company incorporated in the PRC on 12 June 2010 and is principally engaged in the refinery and processing of rare earth products in the PRC.

Given the incorporation date of the Target Company and the Target Operator being 8 November 2006 and 12 June 2010 respectively, and that for the period from 1 April 2008 to 11 June 2010, the Target Group do not have substantial operations, it is set out below the management discussion and analysis of the Target Group for the period from 12 June 2010 to 31 March 2011 (the “Relevant Period”). The exclusion of the management discussion and analysis from 1 April 2008 to 11 June 2010 do not affect the accuracy and completeness of the Target Group’s information.

BUSINESS AND FINANCIAL REVIEW

Revenue, costs and operating results

The Target Group has not yet commenced production but has been in the process of setting up the production facilities for the Relevant Period. Accordingly, for the Relevant Period, no revenue is recorded; all the expenses have been capitalized; and there is no profit or loss incurred.

Income taxes

The Target Group is subject to the uniform domestic and foreign enterprise income tax rate of 25% implemented under the PRC Enterprise Income Tax Law. Given the commercial operations being yet to commence for the Relevant Period, the Target Group has not incurred any income tax expenses.

Financial resources and liquidity

The bank and cash balances of the Target Group as at 31 March 2011 was approximately HK\$359,000. The current liabilities of the Target Group as at 31 March 2011 was approximately HK\$42,470,000. As the Target Group did not have any bank borrowings, no gearing ratio (being total bank borrowings divided by total assets) is determined.

Capital structure

The capital structure as of 31 March 2011 of the Target Company and the Target Operator only consisted shareholders' equity of HK\$10,142,000 and HK\$23,753,000 respectively and there were no bank borrowings of the Target Group as at 31 March 2011.

Material acquisitions and significant investments

There was no material acquisition of subsidiary and investment during the Relevant Period.

Analysis of segmental information

No segment information is presented in respect of the Target Group's operating segment as the Target Group's principal activities are refining and processing of rare earth products in the PRC. The Target Group has not commenced operations in any geographical or other business segments for the Relevant Period.

Employees

As at 31 March 2011, the number of employees of the Target Group was approximately 44 and the total staff costs for the Relevant Period was approximately HK\$790,000 which has been capitalized in the property, plant and equipment.

Charges on the assets

As at 31 March 2011, the aggregate carrying value of the property, plant and equipment and land use right of the Target Group is approximately HK\$53,228,000. There are no charges on the assets as at the Latest Practicable Date.

Gearing ratio

As the Target Group did not have any bank borrowings, no gearing ratio (being total bank borrowings divided by total assets) is determined.

Foreign exchange exposure

The Target Group is not exposed to any foreign currency risk as all of its operations and transactions will be in the PRC with their functional currency of RMB.

Use of financial instruments for hedging purposes

As at 31 March 2011, the Target Group did not use any financial instruments for hedging purposes.

Contingent liabilities

As at 31 March 2011, the Target Group had no material contingent liabilities.

Future plans for material investments

As at the Latest Practicable Date, the Target Group planned to make further investments in plant and equipment of not more than RMB50,000,000.

The following is the text of a letter prepared for the purpose of incorporation in this circular received from Roma Appraisals Limited, an independent valuer, in connection with its valuation of the fair value of the 100% interest in the intangible asset of the Target Operator.



Unit 3806, 38/F, China Resources Building,
26 Harbour Road, Wan Chai, Hong Kong
Tel (852) 2529 6878 Fax (852) 2529 6806
E-mail info@roma-international.com
<http://www.roma-international.com>

24 August 2011

China Gamma Group Limited

Unit 3411, 34/F., COSCO Tower,
Grand Millennium Plaza,
183 Queen's Road Central,
Hong Kong

Dear Sir/Madam,

**RE: FAIR VALUE OF THE 100% INTEREST IN THE INTANGIBLE ASSET OF
冕寧縣茂源稀土科技有限公司 (MIANNING MAO YUAN RARE EARTH TECHNOLOGY
COMPANY LIMITED)**

In accordance with the instructions from China Gamma Group Limited (hereinafter referred to as the “Company”), we have performed the valuation of the fair value of the 100% interest in the intangible asset (hereinafter referred to as the “Intangible Asset”) in connection with the rare earth refinery and processing plant owned by 冕寧縣茂源稀土科技有限公司 (Mianning Mao Yuan Rare Earth Technology Company Limited) (hereinafter referred to as the “Business Enterprise”) situated in Mianning, Liangshan Zhou, Sichuan Province, the People’s Republic of China (“PRC”), as at 31 March 2011 (hereinafter referred to as the “Date of Valuation”).

This report states the purpose and basis of valuation, scope of work, economic and industry overviews, overviews of the Business Enterprise and the Intangible Asset, major assumptions, valuation methodology and limiting conditions, and presents our opinion of value.

1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. The Company is a public company listed on the Main Board of the Hong Kong Stock Exchange. In addition, Roma Appraisals Limited (hereinafter referred to as “Roma Appraisals”) acknowledges that this report may be made available to the Company for public documentation purpose and the shareholders of the Company for inspection.

Roma Appraisals assumes no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely on their own risk.

2. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and the information provided by the management of the Company, the management of the Business Enterprise and/or its representative(s) (together referred as the “Management”).

In preparing this report, we have had discussions with the Management in relation to the development and prospect of the rare earth industry in China, the development, operations and other relevant information of the Business Enterprise. As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Business Enterprise provided to us by the Management and have considered such information and data as attainable and reasonable.

We have no reason to believe that any material facts have been withheld from us. However, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

3. ECONOMIC OVERVIEW

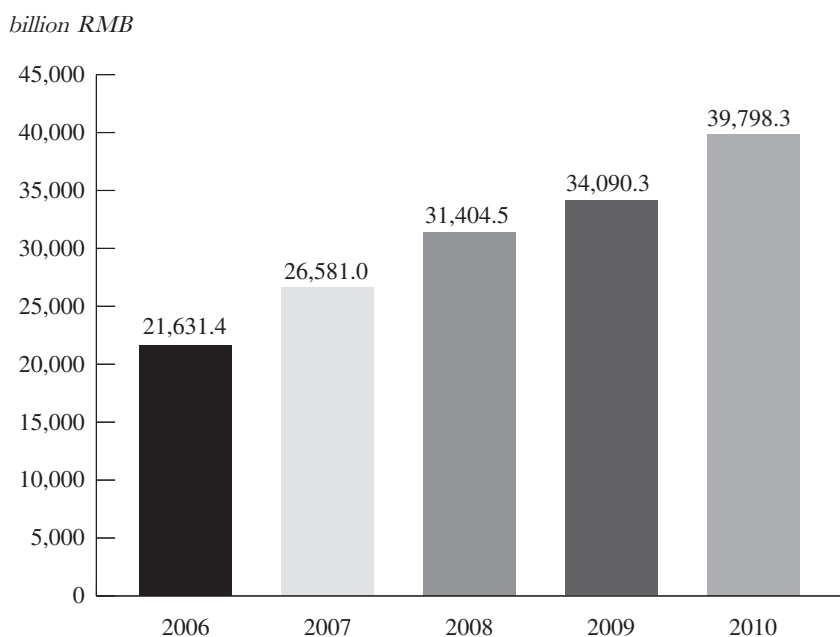
3.1 Overview of the Economy in China

According to the National Bureau of Statistics of China, the nominal Gross Domestic Product (“GDP”) in 2010 was RMB39,798.3 billion, an increase of 10.3% in real term over the previous year. China is the third largest economy in the world, ranked after the European Union and United States, in terms of nominal GDP measured by the International Monetary Fund in 2010. Despite the global financial crisis in late 2008, the Chinese economy continued to be supported by the Chinese government through spending in infrastructure and real estates.

Throughout 2009, the global economic downturn reduced foreign demand for Chinese exports for the first time in many years. The government vowed to continue reforming the economy and emphasized the need to increase domestic consumption in order to make China less dependent on foreign exports. China economy rebounded quickly in 2010, outperforming all other major economies with robust GDP growth and the economy appears to remain in strong growth in 2011.

Over the past decade from 2001 to 2010, compound annual growth rate of China's GDP was 9.3% and in the government's latest plan, it is targeted to grow at 7% for the period from 2011 to 2015. Figure 1 further illustrates the GDP from 2006 to 2010 in China.

Figure 1 – China's Gross Domestic Product in 2006-2010



Source: National Bureau of Statistics of China

4. INDUSTRY OVERVIEW

4.1 General Properties and Applications of Rare Earth

Under the definition of International Union of Pure and Applied Chemistry (“IUPAC”), rare earth elements or rare earth metals are a set of seventeen chemical elements, including fifteen lanthanoids, scandium and yttrium.

Rare earth elements (with the exception of the radioactive promethium) are relatively plentiful in the earth crust, with cerium being the 25th most abundant element at 68 parts per million, similar to copper. However, due to their geochemical properties, rare earth elements are typically dispersed and not often found in concentrated and economically exploitable forms.

With reference to the report “Rare Earth Elements: The Global Supply Chain”, the dominant end uses for rare earth elements in the United States are for auto catalysts and petroleum refining catalysts. The other major end uses for rare earth elements include phosphors in color television and flat panel displays in cell phones and laptops, permanent magnets which are used in numerous electrical and electronic components and generators for wind turbines, and rechargeable batteries for hybrid and electric vehicles. In addition, there are important defense applications, such as jet fighter engines, missile guidance systems and space-based satellites and communication systems.

4.2 Rare Earth Market in China

4.2.1 Rare Earth Oxide Production

According to the U.S. Geological Survey Mineral Commodity Summaries published in January 2011, China continues to be the largest rare earth producer of rare earth oxide, where it constituted over 95% of the total world production. In 2010, China produced 130,000 metric tons of rare earth oxide, followed by India with 2,700 metric tons and Brazil with 550 metric tons. The rare earth oxide mine productions of the four major producing countries in 2009 and 2010 are listed in figure 2.

Figure 2 – Rare Earth Oxide Mine Production in 2009 and 2010

	2009	2010
	<i>metric tons</i>	<i>metric tons</i>
Brazil	550	550
China	129,000	130,000
India	2,700	2,700
Malaysia	350	350

Source: U.S. Geological Survey, Mineral Commodity Summaries, January 2011

4.2.2 Rare Earth Export

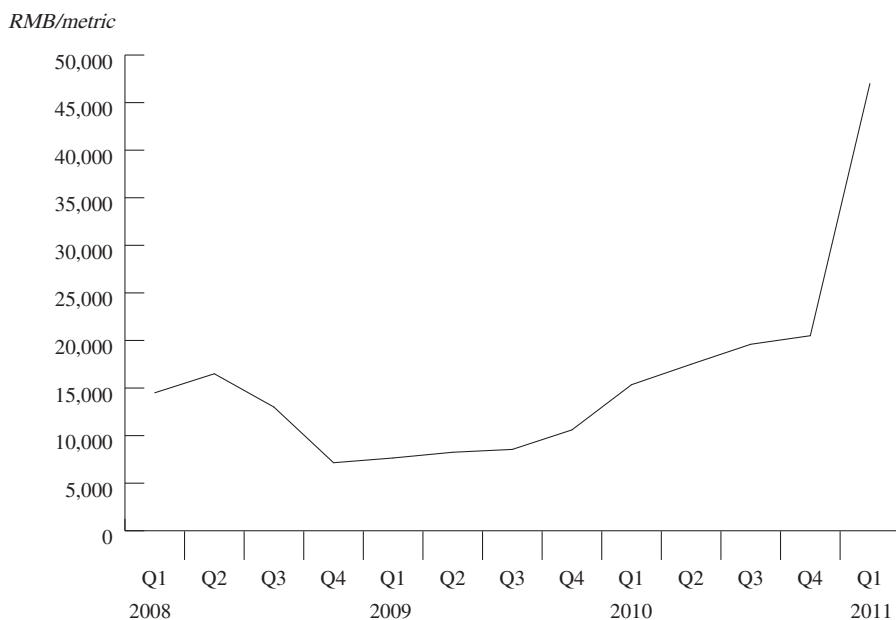
The Chinese government usually issues two rounds of export quotas every year. According to an announcement made by the Ministry of Commerce of the PRC on the first round export quota for 2011, the government allotted 14,446 tonnes of rare earth exports among 31 domestic and foreign-invested companies; whereas the first round of allotment for 2010 was 22,282 tonnes, showing that the export quotas of 2011 decreased by about 35% when compared to previous year. This posed threat and concern to the world on the global shortage of the minerals used in the manufacture of disk drives, smart phones, hybrid cars and guided missiles.

The Ministry of Finance and State Administration of Taxation of the PRC announced a tax increase on rare earth resources starting 1 April 2011. The new tax rates will be RMB60 per ton for light rare earths, and RMB30 per ton for medium and heavy rare earths. In particular, export taxes for neodymium, which is used in production of batteries for hybrid cars, will increase from the 15% temporary export tax to 25%. Lanthanum, which is also used in hybrids, and cerium, which is used for polishing semiconductors, were not taxed in 2010, and will be taxed at 25% in 2011.

4.2.3 Rare Earth Carbonate Price

As a result of the increasing demand and tightening restrictions on exports of the metals from China, rare earth carbonate price has soared over one quarter from RMB20,500 per metric ton in the last quarter of 2010 to RMB47,000 per metric ton in the first quarter of 2011. The year-end price of rare earth carbonate in 2009 was RMB10,600 per metric ton, a 48% increase over the year-end price last year. Figure 3 illustrates the quarterly closing price of rare earth carbonate from the first quarter of 2008 to the first quarter of 2011.

Figure 3 – Quarterly Closing Price of Rare Earth Carbonate from the First Quarter of 2008 to the First Quarter of 2011



Source: Shanghai Steelhome Information

5. THE BUSINESS ENTERPRISE AND THE RARE EARTH REFINERY PLANT

5.1 The Business Enterprise

The Business Enterprise is a company incorporated in the PRC and principally engaged in the refinery and processing of rare earth elements into products which have broad applications in industrial and consumer related industries including high-technology and green energy technologies.

The Business Enterprise owns the rare earth refinery plant located in Sichuan Province, the PRC. Sichuan Province is the second largest production hub of rare earth products in the PRC, accounting for 24% to 30% of the total national production, whereas the PRC is the largest supplier of rare earth products in the world and accounts for over 95% of the world production and dominates the supply. The operation of the Business Enterprise is situated in the vicinity of major rare earth mines regions. It started operations in May 2011.

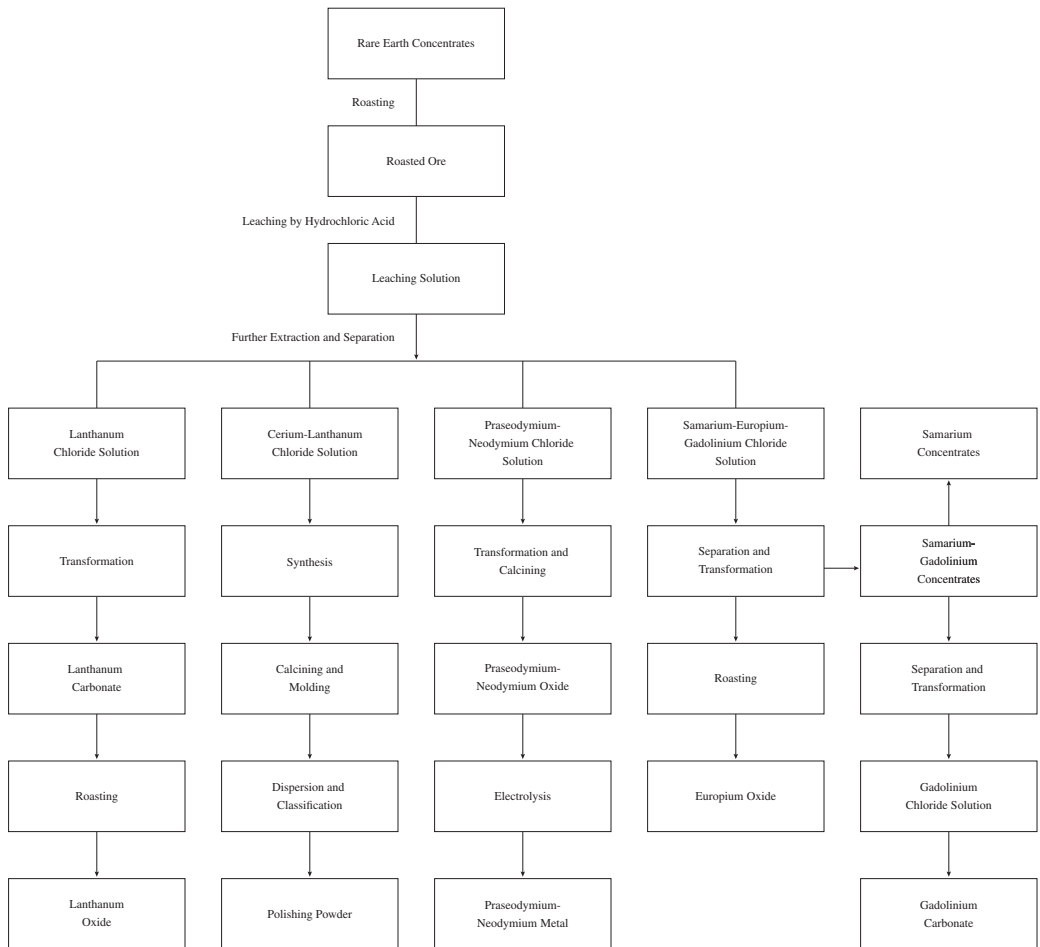
The total processing capacity of the rare earth refinery plant is 10,000 tonnes of rare earth concentrates per annum, which is one of the largest rare earth refinery plants in Sichuan Province, the PRC.

6. THE INTANGIBLE ASSET

The International Valuation Standards define intangible assets as: “assets that manifest themselves by their economic properties; they do not have physical substance; they grant rights and privileges to their own; and usually generate income for their owner. Intangible assets can be categorized as arising from: rights; relationships; grouped intangibles; or intellectual property”. Moreover, an intangible asset can also be defined as “a claim to future benefits that does not have a physical or financial embodiment.”

6.1 Technology

Based on our review of the relevant information provided by the Company, we considered the following technology (hereinafter referred to as the “Technology”) to be the material, separable and identifiable intangible asset:



Source: The Company

The Technology converts rare earth concentrates to six major products, which include lanthanum oxide, polishing powder, praseodymium-neodymium metal, europium oxide, samarium concentrates and gadolinium carbonate.

According to the information provided by the Company, the Business Enterprise has obtained the following Chinese governmental approvals:

- Approval Reply Regarding High-performance Rare Earth Polishing Powder Project* (關於高性能稀土拋光粉項目的批復) granted by the Office of Sichuan Provincial Development and Reform Commission* (四川省發展和改革委員會辦公室) on 11 February 2011;
- Approval Reply Regarding Environmental Impact Statement on High-performance Rare Earth Polishing Powder Construction Project* (關於高性能拋光粉建設項目環境影響報告書的批復) granted by the Office of Environmental Protection Bureau of Sichuan Province* (四川省環境保護廳辦公室) on 29 December 2010;
- Approval Reply Regarding Water and Soil Conservation Program Report on High-performance Rare Earth Polishing Powder Project* (關於高性能拋光粉項目水土保持方案報告的批復) granted by the Office of Liangshan Prefecture Water Bureau* (涼山州水務局辦公室) on 24 June 2010; and
- Approval Reply Regarding Original Company Business Scope to be retained by “Caogu Metallurgical Plant of Mianning Mao Yuan Rare Earth Technology Company Limited” After Restructuring* (關於重組後「冕寧縣茂源稀土科技有限公司曹古冶金廠」保留原公司經營範圍的批復) granted by Economics Bureau of Mianning County* (冕寧縣經濟局) on 1 December 2010.

With both the Technology and the above Chinese governmental approvals, the Business Enterprise has the right and privilege to produce rare earth products and generate incomes from the rare earth processing business. Therefore, we considered the Technology as the material, separable and identifiable intangible asset for this valuation.

7. BASIS OF VALUATION

Our valuation is conducted on a fair value basis. **Fair value** is defined as “the estimated amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

8. INVESTIGATION AND ANALYSIS

Our investigation included discussions with members of the Management in relation to the development and prospect of the rare earth industry in China, and the development, operations and other relevant information of the Business Enterprise and the Technology. In addition, we have made relevant inquiries and obtained further information and statistical figures regarding the rare earth industry from external public sources as we considered necessary for the purpose of the valuation.

As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Business Enterprise provided to us by the Management and had considered such information and data as attainable and reasonable.

The valuation of the Intangible Asset requires consideration of all pertinent factors, which may or may not affect the operation of the business and its ability to generate future investment returns. The factors considered in our valuation include, but are not necessarily limited to, the following:

- The nature and prospect of the Business Enterprise;
- The financial condition of the Business Enterprise;
- The economic outlook in general and the specific economic environment and market elements affecting the business, industry and market;
- Relevant licenses and agreements;
- The business risk of the Business Enterprise such as the ability in maintaining competent technical and professional personnel; and
- Investment returns and market transactions of entities engaged in similar Intangible Asset.

9. VALUATION METHODOLOGY

There are generally three accepted approaches to obtain the fair value of the Intangible Asset, namely the Market-Based Approach, Income-Based Approach and Asset-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature.

9.1 Market-Based Approach

The Market-Based Approach values a business entity by comparing prices at which other business entities in a similar nature changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication of prices of other similar business entities in companies that have been sold recently.

The right transactions employed in analyzing indications of values need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

9.2 Income-Based Approach

The Income-Based Approach focuses on the economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this present value can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

9.3 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital (“equity and long term debt”). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity (“equity”) and investors who lend money to the business entity (“debt”). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, their sum equals the value of the business entity.

9.4 Intangible Asset Valuation

In the process of valuing the Intangible Asset, we have taken into account of the uniqueness of its operation and the industry it is participating. The Asset-Based Approach was not adopted because it cannot reflect the fair value of the Intangible Asset. The Market-Based Approach was not adopted because there are insufficient similar and relevant comparable intangible assets. We have therefore considered the adoption of Income-Based Approach in arriving at the fair value of the Intangible Asset of the Business Enterprise.

Under the Income-Based Approach, we have adopted the excess earning method in particular to obtain the value of the Intangible Asset in present value term. This method looks at the current value of the tangible assets and other intangible assets employed as the benchmark for an estimated rate of return. This is used to calculate the profits that are required in order to induce investors to invest into those tangible and other intangible assets. Any return over and above those profits required in order to induce investment is considered to be the excess return attributable to the Intangible Asset.

9.4.1 Discount Rate

In calculating the discount rate, we first obtained the weighted average cost of equity (“WACC”) of the Business Enterprise, which was calculated by the formula below:

$$\text{WACC} = W_e \times R_e + W_d \times R_d \times (1 - T_c)$$

In which

- R_e = Cost of equity;
- R_d = Cost of debt;
- W_e = Weight of equity value to enterprise value;
- W_d = Weight of debt value to enterprise value; and
- T_c = Corporate tax rate.

The cost of equity was calculated by using the following formula:

$$R_e = R_f + \beta \times \text{Market Risk Premium} + \text{Other Risk Premium}$$

In which

- R_e = Cost of equity;
- R_f = Risk-free rate; and
- β = Beta coefficient.

The discount rate of the Technology was calculated by the following formula:

$$\text{Discount Rate} = \text{WACC} + \text{Additional Premium for Intangible Asset}$$

By adopting 3.91% as the risk-free rate, 13.64% as the market risk premium, 1.03 as the beta estimate of the Business Enterprise, 7.99% as the other risk premium of the Business Enterprise, we arrived at 25.93% of cost of equity.

With reference to the China above 5-year best lending rate, the cost of debt is 6.60%. By taking the average of the debt-to-equity ratios of the comparable companies, we adopted 29.75% as the weight of debt and 70.25% as the weight of equity, such that 19.69% of the WACC was obtained. Furthermore, we adopted 4.00% as the additional premium for intangible asset. Hence, the discount rate of the Intangible Asset was 23.69% as at the Date of Valuation.

10. MAJOR ASSUMPTIONS

We have adopted certain specific assumptions in our valuation and the major ones are as follows:

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Business Enterprise operates or intends to operate are officially obtained;
- There will be sufficient supply of technical staff in the industry in which the Business Enterprise operates, and the Business Enterprise will retain competent management, key personnel and technical staff to support its ongoing operations and developments;
- The Business Enterprise has adopted reasonable and necessary security measures and has considered contingency plans against any disruption (such as fire, change of government policy, labour dispute, implementation of safety measures, and other types of unexpected accident or natural disasters or catastrophes) to the business operations;
- There exist reliable and adequate transportation network and capacity for processing the rare earth products;
- There will be no major changes in the current taxation laws in the localities in which the Business Enterprise operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;
- There will be no major changes in the political, legal, economic or financial conditions in the localities in which the Business Enterprise operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Business Enterprise; and
- Interest rates and exchange rates in the localities for the operation of the Business Enterprise will not differ materially from those presently prevailing.

11. INFORMATION REVIEWED

Our opinion requires consideration of relevant factors and information affecting the fair value of the Intangible Asset. The factors and information considered included, but were not necessarily limited to, the following:

- Financial statements of the Business Enterprise;
- Historical information of the Business Enterprise;
- Approval Reply Regarding High-performance Rare Earth Polishing Powder Project* (關於高性能稀土拋光粉項目的批復);
- Approval Reply Regarding Environmental Impact Statement on High-performance Rare Earth Polishing Powder Construction Project* (關於高性能拋光粉建設項目環境影響報告書的批復);
- Approval Reply Regarding Water and Soil Conservation Program Report on High-performance Rare Earth Polishing Powder Project* (關於高性能拋光粉項目水土保持方案報告的批復);
- Approval Reply Regarding Original Company Business Scope to be retained by “Caogu Metallurgical Plant of Mianning Mao Yuan Rare Earth Technology Company Limited” After Restructuring* (關於重組後「冕寧縣茂源稀土科技有限公司曹古冶金廠」保留原公司經營範圍的批復);
- Market trends of the rare earth industry in China;
- Registrations and legal documents related to the Intangible Asset;
- General descriptions in relation to the Intangible Asset; and
- Economic outlook in China.

We have also conducted research from various sources to verify the reasonableness and fairness of information provided and we believe that such information is reasonable and reliable. We have assumed the accuracy of information provided and relied to a considerable extent on such information in arriving at our opinion.

12. LIMITING CONDITIONS

The valuation reflects the facts and conditions existing at the Date of Valuation. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied to a considerable extent on information provided by the Management and the technical report in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We have not investigated the title to or any legal liabilities of the Intangible Asset and have assumed no responsibility for the title to the Intangible Asset appraised.

Our conclusion of the fair value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

13. REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Renminbi (*RMB*).

We hereby confirm that we have neither present nor prospective interests in the Company, the Business Enterprise and its holding companies, subsidiaries and associated companies, or the value reported herein.

14. OPINION OF VALUE

Based on the investigation and analysis stated above and on the valuation method employed, the fair value of the 100% interest in the Intangible Asset as at the Date of Valuation, in our opinion, was reasonably stated as **RMB348,000,000 (RENMINBI THREE HUNDRED AND FORTY EIGHT MILLION ONLY)**.

Yours faithfully,
For and on behalf of
Roma Appraisals Limited

Kelvin Luk
MIBA
Director

Kwan Hoi Cheung
CFA
Head of Valuation

Note:

Mr. Luk is a member of the Institute of Business Appraisers. He has over 5 years of experience in valuation and consultation related to similar assets or companies engaged in similar business activities worldwide as that of the Business Enterprise.

Mr. Kwan is a member of the CFA Institute. He has over 10 years of experience in valuation of similar assets or companies engaged in similar business activities as that of the Business Enterprise.

This report is co-authored by Angela Kwan, Terry Hui, and Winnie Lam.

(I) LETTER FROM TING HO KWAN & CHAN

The following is the text of a report, prepared for inclusion in this circular, from the auditors of the Company, Ting Ho Kwan & Chan, Certified Public Accountants, Hong Kong.

**TING HO KWAN & CHAN
CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)**

9th Floor, Tung Ning Building
249-253 Des Voeux Road Central
Hong Kong



24 August 2011

The Board of Directors
China Gamma Group Limited
Unit 3411, 34/F., COSCO Tower,
Grand Millennium Plaza,
183 Queen's Road Central,
Hong Kong.

Dear Sirs,

We have been engaged to report on the calculations of the discounted future estimated cash flows (the "Valuation") underlying the intangible asset valuation as at 31 March 2011 set out in the valuation report dated 24 August 2011 prepared by Roma Appraisals Limited. The Valuation is set out in Appendix VI of the circular of China Gamma Group Limited (the "Company") dated 24 August 2011 (the "Circular") in connection with the proposed acquisition of the 90% direct interest in Yunnan He Da Investments Company Limited and 60% indirect interest in Mianning Mao Yuan Rare Earth Technology Company Limited (the "Target Operator") by a subsidiary of the Company. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' RESPONSIBILITY FOR THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and as set on pages 88 to 93 of the Circular. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

REPORTING ACCOUNTANT'S RESPONSIBILITY

It is our responsibility to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future estimated cash flows on which the Valuation is based. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Target Operator.

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the bases and assumptions as set out on pages 88 to 93 of the Circular. We reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted future estimated cash flows do not involve the adoption of accounting policies. The discounted future estimated cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

OPINION

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in all material respects in accordance with the bases and assumptions made by directors of the Company as set out on pages 88 to 93 of the Circular.

Yours faithfully,

Ting Ho Kwan & Chan

Certified Public Accountants (Practising)

(II) LETTER FROM AMPLE CAPITAL

The following is the text of a letter, prepared for the purpose of incorporation in this circular, issued by the financial adviser, Ample Capital, in connection with the profit forecasts underlying the valuation of the intangible assets in the valuation report prepared by Roma Appraisals Limited.

AmCap
Ample Capital Limited
豐盛融資有限公司

24 August 2011

The Board of Directors
China Gamma Group Limited
Unit 3411, 34/F Cosco Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

Dear Sirs,

We refer to the valuation report dated 24 August 2011 prepared by Roma Appraisals Limited (the "Valuer") in relation to the appraisal of the market value of the technology as at 31 March 2011 (the "Valuation"). As stated in the valuation report from the Valuer, the Valuation has been arrived at and based on the income approach, which takes into account the cash flow projection of the business relating to the technology for the period from 2011 to 2021 (the "Projection"). As such, the Projection is regarded as a profit forecast under Rule 14.61 of the Listing Rules. Terms used in this letter have the same meanings as defined elsewhere in the circular dated 24 August 2011 (the "Circular"), of which this letter forms part, unless the context requires otherwise.

We have reviewed the Projection upon which the Valuation has been made, and have discussed with you and the Valuer the information and documents provided by you, which formed part of the bases and assumptions upon which the Projection have been made. We have also considered, and relied upon, the letter addressed to the Board from Ting Ho Kwan & Chan Certified Public Accountants, as set out in Appendix VI to the Circular regarding the calculations for the Projection also have been made.

On the basis of the foregoing, we are satisfied that the Projection for which the directors of the Company are solely responsible, have been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Ample Capital Limited
H.W.Tang
President

* *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.*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long position in the Shares

Name of Director	Nature of interest	Number of Shares held	Approximate percentage of existing issued share capital of the Company
Ho Chi Ho	Beneficial owner	75,000,000	2.33%
Ma Kwok Hung, Warren	Beneficial owner	3,000,000	0.09%
Hung Hing Man	Beneficial owner	500,000	0.02%

Long position in underlying shares

Name of Director	Nature of interest	Number of share options held	Approximate percentage of existing issued share capital of the Company
Ho Chi Ho	Beneficial owner	150,000,000	4.65%
Chow Siu Ngor	Beneficial owner	3,000,000	0.09%
Chan Chi Yuen	Beneficial owner	3,000,000	0.09%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company held any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any of its subsidiaries other than contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given their opinion or reports which are contained or referred to in this circular:

Name	Qualifications
Ample Capital	Financial Adviser
Ting Ho Kwan & Chan	Certified Public Accountants (Practising)
Roma Appraisals Limited	Independent Professional Valuer

Each of Ting Ho Kwan & Chan, Roma Appraisals Limited and Ample Capital has given and has not withdrawn their written consent to the issue of this circular with the inclusion herein of their letter and/or report (as the case may be) and/or references to their name in the form and context in which it appears.

As at the Latest Practicable Date, none of Ting Ho Kwan & Chan, Roma Appraisals Limited and Ample Capital had any shareholding in any member of the Group or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

5. DIRECTORS' AND EXPERTS' INTEREST IN ASSETS, CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors, Ting Ho Kwan & Chan, Roma Appraisals Limited and Ample Capital has any direct or indirect interest in any assets which have been or are proposed to be acquired, disposed of by or leased to, any member of the Group since 31 March 2011, the date to which the latest published audited financial statements of the Company were made up. None of the Directors, Ting Ho Kwan & Chan, Roma Appraisals Limited and Ample Capital is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associate(s) was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. LITIGATION

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 will 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, legal proceedings were instigated against Stronway Development on this matter in the High Court of Hong Kong on 15 April 2008.

Save as disclosed herein, no member of the Enlarged Group is engaged in any litigation or claims of material importance and no litigation or claims of material importance is known to the Directors to be pending or threatened by or against any member of the Enlarged Group as at the Latest Practicable Date.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Enlarged Group within two years immediately preceding the date of this circular and are or may be material:

- (i) The equity transfer agreement dated 27 April 2011 entered into between the Target Company and Mr. Gao Chenggang (高成剛) in relation to the transfer of 60% equity interest in the Target Operator to the Target Company at a consideration of RMB15,000,000. Please also refer to Note (4) - Group Restructuring in the Unaudited Pro Forma Financial Information of the Enlarged Group as set out in Appendix IV to this circular.
- (ii) The subscription agreement dated 8 March 2011 (as amended by the supplemental agreement dated 3 May 2011) entered into between the Company and Mega Market Assets Limited in relation to the issue of the convertible notes in the principal amount of HK\$105,000,000 by the Company. Details of the agreement are set out in the circular of the Company dated 17 June 2011.

- (iii) The sale and purchase agreement dated 8 March 2011 (as replaced in its entirety by a memorandum of understanding dated 3 May 2011) entered into amongst Grand Surplus International Limited, a wholly-owned subsidiary of the Company, Citi Wonder Limited, the Company and Mr. Zhuang Xu in relation to the proposed acquisition of all the issued share capital of Park Target Limited at a consideration of HK\$350,000,000 (to be finalized and agreed between the parties if a formal sale and purchase agreement will be entered into). Details of the memorandum of understanding are set out in the announcement of the Company dated 3 May 2011.
- (iv) The sale and purchase agreement dated 21 January 2011 entered into amongst 北京德邦富策劃諮詢有限公司 (Beijing De Bang Fu Strategic Consultancy Company Limited*), a wholly-owned subsidiary of the Company, 北京巨鼎源房地產開發有限公司 (Beijing Ju Din Yuen Property Development Company Limited*), a non wholly-owned subsidiary of the Company and 北京福發房地產開發有限公司 (Beijing Fu Fa Property Development Company Limited*) in relation to the disposal of the entire issued share capital of 北京友聯房地產開發有限公司 (Beijing Yo Luan Property Development Company Limited*) at the consideration of RMB38,000,000. Details of the agreement are set out in the announcement of the Company dated 21 January 2011.
- (v) The cooperation agreement dated 18 December 2009 entered into between Top Field Technology Limited, a wholly-owned subsidiary of the Company and 中國人民解放軍軍事醫學科學院 (The Academy of Military Medical Sciences*) for the further development of gamma ray technologies and applications. Details of the agreement are set out in the announcement of the Company dated 18 December 2009.
- (vi) The acquisition agreement dated 11 September 2009 entered into between Top Field Technology Limited, a wholly-owned subsidiary of the Company and Mr. Wu Jiang in relation to the acquisition of 80% equity interest in 淄博利源高科輻照技術有限公司 (Zibo Liyuan Gamma Ray Technologies Co. Limited*) at the consideration of RMB44,000,000. Details of the agreement are set out in the announcement of the Company dated 11 September 2009.

9. MISCELLANEOUS

- (i) The company secretary of the Company is Mr. Chan Chun Lam, who is a fellow member of both The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants.
- (ii) The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is located at Unit 3411, 34/F., COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong.
- (iii) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (iv) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong, Unit 3411, 34/F., COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the SGM:

- (i) the Sale and Purchase Agreement;
- (ii) the letter from Ting Ho Kwan & Chan in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;
- (iii) the letter from Ting Ho Kwan & Chan in relation to the valuation report dated 24 August 2011 as set out in Appendix VI to this circular;

- (iv) the valuation report issued by Roma Appraisals Limited on 24 August 2011 in relation to the fair value of the intangible asset owned by the Target Operator as set out in Appendix VI to this circular;
- (v) the written consent of the experts referred to in the section headed “Expert and Consent” in this appendix;
- (vi) the letter from Ample Capital in respect of the valuation report dated 24 August 2011 as set out in Appendix VI to this circular;
- (vii) memorandum of association and bye-laws of the Company;
- (viii) the material contracts referred to in section 8 of this Appendix;
- (ix) the annual reports of the Company for the two financial years ended 31 March 2011 and 31 March 2010;
- (x) the circular dated 17 June 2011 for a connected transaction in relation to the subscription agreement for convertible notes (as supplemented); and
- (xi) this circular.

NOTICE OF SPECIAL GENERAL MEETING

China Gamma Group Limited

中國伽瑪集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 164)

NOTICE IS HEREBY GIVEN that the special general meeting (the “**Meeting**”) of China Gamma Group Limited (the “**Company**”) will be held at Unit 3411, 34/F., COSCO Tower, Grand Millennium Plaza, 183 Queen’s Road Central, Hong Kong on Thursday, 8 September 2011 at 4:30 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“**THAT**

- (a) the sale and purchase agreement dated 11 May 2011 (the “**Sale and Purchase Agreement**”) entered into between Beijing Gamma Corporate Management Limited (北京伽瑪企業管理有限公司), a wholly-owned subsidiary of the Company, and Mr. Hu Zhengzhi (the “**Vendor**”) in relation to the acquisition (through a wholly-owned subsidiary of the Company to be incorporated in the People’s Republic of China) of 90% of the equity interest of Yunnan He Da Investments Company Limited (雲南和達投資有限公司) (the “**Target Company**”) and all debts, disbursements or other liabilities owing or incurred by the Target Company and its subsidiary to the Vendor (a copy of the Sale and Purchase Agreement is marked “A” and produced to this Meeting and signed by the chairman of the Meeting for identification purposes) and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved; and
- (b) any one or more of the directors of the Company be and is/are hereby authorised for and on behalf of the Company to sign, seal, execute, perfect and deliver all such documents and do all such acts, deeds, matters and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Sale and Purchase Agreement and the transactions contemplated thereunder.”

By order of the Board

CHINA GAMMA GROUP LIMITED

Ho Chi Ho

Executive Director

Hong Kong, 24 August 2011

NOTICE OF SPECIAL GENERAL MEETING

As at the date hereof, the executive director of the Company is Mr. Ho Chi Ho; 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.

Registered office:

Clarendon House
Church Street
Hamilton, HM 11
Bermuda

Principal place of business

in Hong Kong:

Unit 3411, 34/F., COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

Notes:

1. Any shareholder entitled to attend and vote at the Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend and vote on the same occasion.
2. Where there are joint registered holders of any share(s), any one of such joint holders may attend and vote at the Meeting, either in person or by proxy in respect of such share(s) as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the Meeting or any adjourned meeting thereof (as the case may be), the more senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
3. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority must be deposited at the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjourned meeting thereof (as the case may be).
4. Completion and return of the form of proxy will not preclude shareholders from attending and voting at the Meeting or any adjourned meeting thereof (as the case may be) should they so wish and in such event, the form of proxy shall be deemed to be revoked.