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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)**

**(1) MEMORANDUM OF UNDERSTANDING IN RELATION TO THE PROPOSED ACQUISITION OF A VANADIUM MINING PROJECT;**

**(2) CONNECTED AND MAJOR TRANSACTION – SUBSCRIPTION AND AGREEMENT IN RELATION TO THE SUBSCRIPTION OF CONVERTIBLE NOTES (AS AMENDED BY THE SUPPLEMENTAL AGREEMENT);**

**(3) POSSIBLE ACQUISITION OF A RARE EARTH REFINERY AND PROCESSING BUSINESS; AND**

**(4) RESUMPTION OF TRADING**

Reference is made to the announcements published by the Company on 9 March 2011 in relation to suspension of trading in the Shares of the Company and on 23 March 2011 in relation to the Company's Proposed Acquisition regarding a very substantial acquisition of a mining project and a connected transaction regarding the subscription of convertible notes of the Company.

**(1) MEMORANDUM OF UNDERSTANDING IN RELATION TO THE PROPOSED ACQUISITION**

The Board announces, pursuant to Rule 13.09(1) of the Listing Rules, that on 3 May 2011 the Purchaser, the Vendor, the Company and the Guarantor entered into a MOU in relation to the Proposed Acquisition. Pursuant to the MOU, the parties agreed to replace the Sale and Purchase Agreement dated 8 March 2011 in its entirety.

Pursuant to the MOU, among others, the Purchaser proposed to purchase and the Vendor proposed to dispose of the Sale Share and the Sale Loan (if any) at a consideration for HK\$350,000,000 (to be finalized and agreed between the parties if a formal sale and purchase agreement will be entered into). The Consideration will be satisfied by a combination of cash payment, the issue of the Consideration Shares to the Vendor, and the issue of the Consideration CN to the Vendor, to be agreed between the Purchaser and the Vendor if a formal sale and purchase agreement will be entered into.

The Vendor has undertaken to the Purchaser not to negotiate with any third party to sale or otherwise deal with the Target Group before 31 July 2011 (the “**Exclusivity Period**”) and will use its best endeavour to enter into a formal sale and purchase agreement with the Purchaser.

The arrangements described in the paragraphs under the sub-sections headed “Replacement” and “Exclusivity Period” below are legally binding on the parties to the MOU. The arrangements described in the paragraphs under the sub-sections headed “Assets to be acquired”, “Consideration” and “Conditions precedent to entering into a formal sale and purchase agreement” do not constitute legally-binding commitments in respect of the Proposed Acquisition.

**The Board wishes to emphasize that the Proposed Acquisition will be subject to the execution and completion of the formal sale and purchase agreement and therefore may or may not be proceeded with. If such formal agreement is entered into, the Proposed Acquisition may constitute a very substantial acquisition on the part of the Company under the Listing Rules, and announcements will be made as and when appropriate in accordance with the Listing Rules. Shareholders and potential investors are urged to exercise caution when dealing in the securities of the Company.**

**(2) SUBSCRIPTION CN AGREEMENT (AS AMENDED BY THE SUPPLEMENTAL AGREEMENT)**

On 8 March 2011, the Company entered into a Subscription CN Agreement with the Subscriber under which, the Subscriber shall subscribe for Subscription CN of a principal amount of HK\$105,000,000 subject to, amongst other things, the Sale and Purchase Agreement becoming unconditional.

As the Sale and Purchase Agreement was replaced in its entirety by the MOU, the Company and the Subscriber entered into a Supplemental Agreement to amend or remove certain terms of the Subscription CN Agreement that has made a reference to the Sale and Purchase Agreement.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Subscription CN are greater than 25% but less than 75%, the Subscription CN constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Also, the Subscriber is the substantial Shareholder of the Company and together with its ultimate beneficial owner, holds 822,647,585 Shares as at the date of this announcement, representing 27.83% of the total issued share capital of the Company. As such, the Subscriber is a connected person of the Company and the Subscription CN also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Therefore, the entering into the Subscription CN Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

A circular containing, among other things, (i) further details of the Subscription CN Agreement (as amended by the Supplemental Agreement) and (ii) a notice of the SGM, will be despatched to Shareholders as soon as practicable. As additional time is required to prepare and finalise the financial information for inclusion in the circular, the despatch date of the circular is expected to be postponed to a date on or before 20 June 2011.

**The transactions contemplated under the Subscription CN Agreement (as amended by the Supplemental Agreement) are subject to the fulfillment of a number of conditions precedent and therefore it may or may not be completed. Shareholders and potential investors should exercise extreme caution when dealing in the Shares.**

### **(3) PROPOSED ACQUISITION OF A RARE EARTH REFINERY AND PROCESSING BUSINESS**

The Board would like to inform the Shareholders, pursuant to Rule 13.09(1) of the Listing Rules, that the Company is in discussion with an Independent Third Party in relation to a proposed acquisition of a controlling stake in a company which is principally engaged in the rare earth refinery and processing business and whose plant is situated in Sichuan, the PRC, which if materialised, may constitute a major transaction under Chapter 14 of the Listing Rules. As at the date of this announcement, the Company has not entered into any binding agreement with any party in relation to the possible acquisition.

**The Board wishes to emphasize that the possible acquisition of a rare earth refinery and processing business is still under negotiation and may or may not be materialised. Shareholders and potential investors are urged to exercise caution when dealing in the securities of the Company.**

Save and except for matters described above, the Board confirms that there are no negotiations or agreements relating to intended acquisitions or realisations which are discloseable under Rule 13.23 of the Listing Rules, neither is the Board aware of any matter discloseable under the general obligation imposed by Rule 13.09 of the Listing Rules, which is or may be of a price-sensitive nature.

#### **(4) RESUMPTION OF TRADING IN THE SHARES**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 9 March 2011 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 4 May 2011.

Reference is made to the announcements published by the Company on 9 March 2011 in relation to suspension of trading in the Shares of the Company, and on 23 March 2011 in relation to the Company's proposed very substantial acquisition of a mining project and a connected transaction regarding the subscription of convertible notes of the Company.

#### **(1) MEMORANDUM OF UNDERSTANDING IN RELATION TO THE PROPOSED ACQUISITION**

The Board announces, pursuant to Rule 13.09(1) of the Listing Rules, that on 3 May 2011 the Purchaser, the Vendor, the Company and the Guarantor entered into a MOU in relation to the Proposed Acquisition.

##### **Date**

3 May 2011

##### **Parties**

- (i) Vendor: Citi Wonder Limited;
- (ii) Purchaser: Grand Surplus International Limited, a wholly-owned subsidiary of the Company;
- (iii) the Company, as issuer of the Consideration Shares, the Consideration CN and the conversion shares upon the exercise of the rights attaching to the Consideration CN; and
- (iv) Guarantor: Mr. Zhuang Xu who provided guarantees in respect of the Vendor's obligations under the MOU.

##### **Effect**

The arrangements described in the paragraphs under the sub-sections headed "Replacement" and "Exclusivity Period" below are legally binding on the parties to the MOU.

The arrangements described in the paragraphs under the sub-sections headed "Assets to be acquired", "Consideration" and "Conditions precedent to entering into a formal sale and purchase agreement" do not constitute legally-binding commitments in respect of the Proposed Acquisition.

The Proposed Acquisition will be subject to the execution and completion of the formal sale and purchase agreement. The Guarantor is expected to provide guarantee for the Vendor's performance of its obligations under such formal agreement.

## **Replacement**

Pursuant to the MOU, the parties agreed to replace the Sale and Purchase Agreement dated 8 March 2011 in its entirety by the MOU.

## **Assets to be acquired**

The Sale Share and the Sale Loan (if any).

## **Consideration**

Pursuant to the MOU, among others, the Purchaser proposed to purchase and the Vendor proposed to dispose of the Sale Share and the Sale Loan (if any) at a consideration for HK\$350,000,000 (to be finalized and agreed between the parties if a formal sale and purchase agreement will be entered into).

The Consideration will be satisfied by a combination of cash payment, the issue of the Consideration Shares to the Vendor, and the issue of the Consideration CN to the Vendor, to be agreed between the Purchaser and the Vendor if a formal sale and purchase agreement will be entered into.

## **Conditions precedent to entering into a formal sale and purchase agreement**

The entering into a formal sale and purchase agreement is subject to and conditional upon the satisfaction of the following conditions:

- (i) the Purchaser having received a reserve report and feasibility study report on the Vanadium Mines in the form and substance satisfactory to the Purchaser. In particular, the feasibility study report should cover a study on the comprehensive design, costing and capital expenditure in respect of the method(s) for the development of the Vanadium Mines, which are considered in enough detail to demonstrate at the time of reporting that extraction is reasonably justified and the factors reasonably serve as the basis for a final decision by a financial institution to finance the development of the relevant development project(s) and acceptable by the Stock Exchange;
- (ii) the Purchaser having received the Technical Report in respect of the Vanadium Mines in form and substance satisfactory to the Purchaser based on the JORC Code and the standards as acceptable by the Stock Exchange. The Technical Report should also demonstrate that the feasibility study report is accurate and feasible and acceptable by the Stock Exchange; and

(iii) the Purchaser having received the Valuation Report on the fair market value of the Vanadium Mines in the form and substance satisfactory to the Purchaser showing the valuation of the Vanadium Mines to be no less than HK\$350,000,000.

### **Exclusivity Period**

The Vendor has undertaken to the Purchaser not to negotiate with any third party to sale or otherwise deal with the Target Group before 31 July 2011 (the “**Exclusivity Period**”) and will use its best endeavour to enter into a formal sale and purchase agreement with the Purchaser.

During the Exclusivity Period, the Vendor will ensure that its director and senior management will not (i) directly or indirectly seek, propose or participate in any discussions or negotiations with any third party involving the business assets of the Target Group; or (ii) provide any information to any third party which will facilitate such third party to investigate or proceed with the transaction.

**The Board wishes to emphasize that the Proposed Acquisition will be subject to the execution and completion of the formal sale and purchase agreement and therefore may or may not be proceeded with. If such formal agreement is entered into, the Proposed Acquisition may constitute a very substantial acquisition on the part of the Company under the Listing Rules, and announcement(s) will be made as and when appropriate in accordance with the Listing Rules. Shareholders and potential investors are urged to exercise caution when dealing in the securities of the Company.**

### **INFORMATION ON THE VENDOR AND THE ASSETS TO BE ACQUIRED UNDER THE PROPOSED ACQUISITION**

#### **The Vendor and the Target Company**

After the completion of the Group Restructuring, the Vendor will hold 100% shares of the Target Company which will indirectly hold 95% equity interest in Wu Cai Mining (which holds the Vanadium Mines).

The Target Company is incorporated with limited liability in the British Virgin Islands and is wholly-owned by the Vendor. It is principally engaged in investment holdings and has not carried out any business or trading since its incorporation save for holding the entire shareholding interests in HK Co.

HK Co. is an investment holding company incorporated with limited liability in Hong Kong. Save for the holding of 95% shareholding interests in Wu Cai Mining after the Group Restructuring, it has not carried out any business or trading nor held any major assets since its incorporation.

#### **Vanadium Mines**

Wu Cai Mining is a company incorporated in the PRC and its business scope according to its business licence includes development of vanadium mines and mining, processing and sale of

vanadium. The Vanadium Mines are composed of two vanadium mines adjacent to each other and are open pit mines located in Xiu Shan, Chongqing, the PRC, an area with rich resources of different minerals such as vanadium, manganese and molybdenum.

### **Vanadium and its major applications**

Vanadium is a rare metal and is an element which is normally extracted and converted into vanadium pentoxide for further processing into end products.

Vanadium is conventionally used in strengthening and hardening alloys like steel. The new and important use of vanadium is in green technology, especially in green and renewable energy storage. Vanadium lithium battery carries more power than other forms of battery at lower cost and is essential for use in green car. Vanadium redox batteries offer durability, rapid response time and extremely large scalable capacity that is very suitable for wind and solar power storage.

### **STUDIES CARRIED OUT BY THE COMPANY**

As part of the due diligence exercise carried out by the Company in relation to the Proposed Acquisition, the Company has already taken steps to conduct various studies including the scoping studies and feasibility studies, and the preparation of the Technical Report and valuation on the Vanadium Mines.

### **(2) SUBSCRIPTION CN AGREEMENT (AS AMENDED BY THE SUPPLEMENTAL AGREEMENT)**

On 8 March 2011, the Company entered into a Subscription CN Agreement with the Subscriber under which, the Subscriber shall subscribe for Subscription CN of a principal amount of HK\$105,000,000 subject to, amongst other things, the Sale and Purchase Agreement becoming unconditional.

As the Sale and Purchase Agreement was replaced in its entirety by the MOU, the Company and the Subscriber entered into a Supplemental Agreement to amend or remove certain terms of the Subscription CN Agreement that has made a reference to the Sale and Purchase Agreement.

The main terms of the Subscription CN Agreement (as amended by the Supplemental Agreement) are as follows:

**Date:** 8 March 2011 (as amended by the Supplemental Agreement)

**Issuer:** the Company as the issuer of the Subscription CN

**Subscriber:** Mega Market Assets Limited

To the best of Directors' knowledge, information and belief, having made all reasonable enquiries, the Subscriber is a substantial

Shareholder which together with its ultimate beneficial owner hold 822,647,585 Shares, representing 27.83% of the total issued share capital of the Company as at the date of this announcement.

**Subscription Amount:** Aggregate principal amount of HK\$105,000,000 with an initial conversion price of HK\$0.27 per Share.

Pursuant to the Subscription CN Agreement (as amended by the Supplemental Agreement), the Company conditionally agreed to issue and the Subscriber conditionally agreed to subscribe for the Subscription CN in an aggregate principal amount of HK\$105,000,000 free from encumbrances.

The initial conversion price of the Subscription CN is HK\$0.27 and it represents:

- (i) a premium of approximately 29.81% to the closing price of the Shares of HK\$0.2080 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 46.66% to the average of the closing prices of the Shares of approximately HK\$0.1841 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 57.99% to the average of the closing prices of the Shares of approximately HK\$0.1709 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 631.71% to the audited net asset value per Share of approximately HK\$0.0369, which is calculated based on the audited net asset value of the Company of HK\$109,157,000 as at 31 March 2010 as stated in its 2010 annual report divided by its total number of 2,955,681,490 issued Shares as at the Last Trading Day.

The initial conversion price of the Subscription CN was determined after arm's length negotiations between the Subscriber and the Company with reference to, amongst other things, the recent trading price of the Shares and the recent market sentiment of the financial market in Hong Kong. The Directors consider that the initial conversion price of the Subscription CN is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Assuming exercise of all the conversion rights under the Subscription CN, 388,888,888 conversion shares (subject to adjustment) will be allotted and issued which shall represent:

- (i) approximately 13.16% of the issued share capital of the Company as at the date of this announcement; and
- (ii) approximately 11.63% of the total issued share capital of the Company as enlarged by the allotment and issue of the conversion shares, assuming full exercise of all the conversion rights under the Subscription CN.

The conversion shares under the Subscription CN will be allotted and issued pursuant to the specific mandate to be sought at the SGM and will be allotted and issued upon exercise of the conversion rights under the Subscription CN. The conversion shares under the Subscription CN, when allotted and issued, shall rank pari passu in all respects amongst themselves and with the Shares in issue on the date of allotment and issue of such conversion shares and be entitled to dividends and other rights carried by the Shares.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the conversion shares under the Subscription CN on the Stock Exchange.

**Conditions Precedent:**

Completion of the Subscription CN Agreement (as amended by the Supplemental Agreement) is subject to and conditional upon the satisfaction of the following conditions:

- (i) the passing of the necessary resolutions by the Shareholders in general meeting approving:
  - (a) the execution, delivery and performance of the Subscription CN Agreement (as amended by the Supplemental Agreement);
  - (b) the issue of the Subscription CN; and
  - (c) the issue of the Shares upon conversion of the Subscription CN,in accordance with the bye-laws of the Company and the requirements of the Listing Rules;
- (ii) the Listing Committee of the Stock Exchange granted (either unconditionally or subject only to conditions to which neither the Company nor the Subscriber have any reasonable objection) the listing of, and permission to deal in, the conversion shares falling to be issued upon exercise of conversion rights attached to the Subscription CN;
- (iii) all other necessary waivers, consents and approvals (if required) from the relevant governmental or regulatory authorities in Hong Kong and Bermuda (including the Bermuda Monetary Authority), with respect to the Company, for the Subscription CN Agreement (as amended by the Supplemental Agreement) and the transactions contemplated therein having been obtained and fulfilled;
- (iv) the approval from the board of directors of the Subscriber having been obtained; and
- (v) the Company's representations, warranties and undertakings referred to in the Subscription CN Agreement (as amended by the Supplemental Agreement) remaining true and accurate in all material respects and not misleading in any material respect as of the Subscription Completion Date by reference to the facts and circumstances subsisting as at the Subscription Completion Date.

If any of the above conditions precedent is not fulfilled (or waived, where applicable) on or before 30 November 2011 (or such other date as may be agreed between the Company and the Subscriber), the Subscription CN Agreement (as amended by the Supplemental Agreement) shall lapse and become null and void and both the Company and the Subscriber will be released from all obligations under the Subscription CN Agreement (as amended by the Supplemental Agreement), except in respect of this provision, confidentiality and announcement, notices, costs and the governing law and jurisdiction provisions and save for liabilities for any antecedent breaches thereof.

**Completion:**

Completion of the Subscription CN Agreement (as amended by the Supplemental Agreement) shall take place at such place and such date and time as the Company and the Subscriber may agree after fulfillment or waiver of all the above conditions precedent.

**Principal terms of the Subscription CN:**

Maximum principal amount: HK\$105,000,000

Maturity date: The third anniversary of the date of issue of the Subscription CN

Interest: 1% per annum on the outstanding principal amount of the Subscription CN, and interest shall accrue from day to day and be payable by every six months in arrears and shall be calculated on the basis of the actual number of days that elapsed in a 360-day year

Redemption: Subject to the terms and conditions of the Subscription CN and unless previously converted, redeemed, purchased or cancelled in accordance with such terms and conditions, the Subscription CN shall be redeemed by the Company on the maturity date at its principal amount outstanding together with all accrued and unpaid interest upon the presentation of the original of the certificate for the Subscription CN to the Company

Conversion Price: The conversion price shall be the price at which each conversion share under the Subscription CN will be issued upon a conversion of all or any part of the Subscription CN, being HK\$0.27 per Share (which shall in any case, from time to time, be subject to usual anti-dilution adjustments in certain events such as share consolidation, share subdivision, capital distribution and capitalization issue of profits or resources)

- Conversion:** Subject as hereinafter provided and that any conversion of the Subscription CN shall not be exercised by the holder of the Subscription CN if, and to the extent that immediately following the conversion (i) the Company will be unable to meet the public float requirement (as defined in the Listing Rules) prescribed under the Listing Rules; and (ii) the relevant holder of the Subscription CN together with the parties acting in concert with it will hold or control 30% or more of the Company's voting power or such amount of the Company's voting power at general meetings as may trigger a mandatory general offer under the Takeovers Code and in effect at the material time (whether or not a waiver of the mandatory general offer obligation has been granted)
- Status of the Subscription CN:** The obligations of the Company arising under the Subscription CN constitute general, unconditional, unsecured and unsubordinated obligations of the Company and rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company (except for obligations accorded preference by mandatory provisions of applicable law) equally
- Transferability:** Subscription CN may be freely assigned and transferred at any time with the prior written approval of the Company provided that such assignment or transfer shall be in compliance with the conditions set out thereunder and further subject to (where applicable) the conditions, approvals, requirements and any other provisions of or under the Stock Exchange (and any other stock exchange on which the Shares may be listed at the relevant time) or its rules and regulations, and the Listing Rules and all applicable laws. The permitted assignment or transfer of the Subscription CN may be in respect of the whole or any part(s) of the outstanding principal amount of the Subscription CN. The Subscription CN or any part(s) thereof may only be transferred by execution of the transfer form by the transferor and the transferee (or their duly authorised representatives)
- Voting Rights:** holder of the Subscription CN will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being the holder of the Subscription CN
- Application for Listing:** No application will be made for a listing of the Subscription CN on the Stock Exchange or any stock or securities exchange

The conversion price of the Subscription CN at the time of issue upon Subscription Completion shall be HK\$0.27 per Share, which shall be subject to adjustments in the events of consolidation or subdivision of the Shares before Subscription Completion. If the Company issues new securities before Subscription Completion and such new securities will exceed 2% of the total number of Shares on a fully diluted basis, the conversion price shall be adjusted to the effect that the percentage of the conversion shares into which the Subscription CN can be fully converted over the total number of Shares on a fully diluted basis will be the same as such percentage as at the date of the Subscription CN Agreement. For this purpose, “**fully-diluted basis**” refers to the issued securities issued by the Company and the securities that the Company agrees to issue, including the conversion shares to be issued under the Subscription CN Agreement and the new Shares issued upon exercise of options which have been granted as at the date of the Subscription CN Agreement pursuant to the Company’s share option scheme adopted on 24 April 2002.

## **USE OF PROCEEDS**

Proceeds from the subscription of the Subscription CN of HK\$105,000,000 after netting off all the administration expenses including publication of circulars will be used for financing the acquisition of potential projects in the future and for the general working capital of the Company.

## **INFORMATION ON THE SUBSCRIBER**

The Subscriber is a company incorporated with limited liability in the British Virgin Islands and is wholly-owned by Mr. Chan How Chung, Victor. The Subscriber is an investment holding company.

## **REASONS FOR ENTERING INTO THE SUBSCRIPTION CN AGREEMENT (AS SUPPLEMENTED)**

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 investments. As stated in the interim report of the Company for the six months ended 30 September 2010, the Company would continue to prudently, actively identify and pursue 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 favoured by the Chinese government policies.

The Board is of the view that the subscription of the Subscription CN will further strengthen the Group’s financial position and will facilitate acquisitions of potential projects in future. As at the date of this announcement, the Group has entered into the MOU for the Proposed Acquisition and is in discussion with an Independent Third Party in relation to a proposed acquisition of a rare earth refinery and processing business.

After arm’s length negotiations with the Subscriber, the Company agreed to issue and the Subscriber agreed to subscribe for Subscription CN. The subscription of the Subscription CN is subject to, amongst other things, the Independent Shareholders’ vote, can enable the Group to have sufficient funds together with the internal resources to be held by the Group.

The Directors consider that the Subscription CN Agreement (as amended by the Supplemental Agreement) was entered into upon normal commercial terms and its terms are fair and reasonable and are in the interest of the Company and the Shareholders as a whole. The Company has not conducted any fund raising activities in the past twelve months before the date of this announcement.

## EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following table summarises the shareholding structure of the Company as at the date of this announcement; and immediately after allotment and issue of the conversion shares under the Subscription CN at the initial conversion price.

The scenarios below are for illustration and reference purposes only. Pursuant to the terms of the Subscription CN, it is provided that any conversion of the Subscription CN shall not: (i) result in the Company being unable to meet the public float requirement (as defined in the Listing Rules) prescribed under the Listing Rules; and (ii) result in the relevant holder of the Subscription CN together with the parties acting in concert with it respectively holding or controlling the Company's voting power at general meetings that may trigger a mandatory general offer under the Takeovers Code and in effect at the material time (whether or not a waiver of the mandatory general offer obligation has been granted).

Shareholder	(a) As at the date of this announcement		(b) immediately after allotment and issue of the conversion shares under the Subscription CN (assuming the conversion rights are exercised to the extent that the relevant holders of the Subscription CN together with the parties acting in concert with them, if any, do not hold more than 30% of the voting rights of the Company)		(c) immediately after allotment and issue of the conversion shares under the Subscription CN (assuming full exercise of all the conversion rights)	
	<i>No. of Shares</i>	<i>% of shareholding</i>	<i>No. of Shares</i>	<i>% of shareholding</i>	<i>No. of Shares</i>	<i>% of shareholding</i>
The Subscriber and its beneficial owner	822,647,585	27.83%	913,939,746	29.99%	1,211,536,473	36.22%
Public	<u>2,133,033,905</u>	<u>72.17%</u>	<u>2,133,033,905</u>	<u>70.01%</u>	<u>2,133,033,905</u>	<u>63.78%</u>
Total	<u><u>2,955,681,490</u></u>	<u><u>100.00%</u></u>	<u><u>3,046,973,651</u></u>	<u><u>100.00%</u></u>	<u><u>3,344,570,378</u></u>	<u><u>100.00%</u></u>

## LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Subscription CN are greater than 25% but less than 75%, the Subscription CN constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Also, the Subscriber is the substantial Shareholder of the Company and together with its ultimate beneficial owner, holds 822,647,585 Shares as at the date of this announcement, representing 27.83% of the

total issued share capital of the Company. As such, the Subscriber is a connected person of the Company and the Subscription CN also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Therefore, the entering into the Subscription CN Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

An SGM will be convened and held to consider and, if thought fit, to approve the Subscription CN Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder, including the issue of the Subscription CN and the conversion shares upon exercise of the conversion rights attached to the Subscription CN.

The Subscription CN Agreement (as amended by the Supplemental Agreement (including the issue of the Subscription CN and the conversion shares upon exercise of the conversion rights attached to the Subscription CN)) will be subject to the approval of the Independent Shareholders at the SGM by way of poll. An Independent Board Committee has been formed to advise the Independent Shareholders and an independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription CN Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder.

A circular containing, among other things, (i) further details of the Subscription CN Agreement (as amended by the Supplemental Agreement) and (ii) a notice of the SGM, will be despatched to Shareholders as soon as practicable in accordance. As additional time is required to prepare and finalise the financial information for inclusion in the circular, the despatch date of the circular is expected to be postponed to a date on or before 20 June 2011.

**The transactions contemplated under the Subscription CN Agreement (as amended by the Supplemental Agreement) are subject to the fulfillment of a number of conditions precedent and therefore it may or may not be completed. Shareholders and potential investors should exercise extreme caution when dealing in the Shares.**

### **(3) THE POSSIBLE ACQUISITION OF A RARE EARTH REFINERY AND PROCESSING BUSINESS**

The Board would like to inform the Shareholders, pursuant to Rule 13.09(1) of the Listing Rules, that the Company is in discussion with an Independent Third Party in relation to a proposed acquisition of a controlling stake in a company which is principally engaged in the rare earth refinery and processing business and whose plant is situated in Sichuan, the PRC. Rare earth elements are scarce natural resources which are indispensable for high-technology and green energy technology products. The proposed acquisition, if materialised, may constitute a major transaction under Chapter 14 of the Listing Rules. As at the date of this announcement, the Company has not entered into any binding agreement with any party in relation to the possible acquisition.

**The Board wishes to emphasize that the possible acquisition of a rare earth refinery and processing business is still under negotiation and may or may not be materialised. Shareholders and potential investors are urged to exercise caution when dealing in the securities of the Company.**

Save and except for matters described above, the Board confirms that there are no negotiations or agreements relating to intended acquisitions or realisations which are discloseable under Rule 13.23 of the Listing Rules, neither is the Board aware of any matter discloseable under the general obligation imposed by Rule 13.09 of the Listing Rules, which is or may be of a price-sensitive nature.

#### **(4) RESUMPTION OF TRADING IN THE SHARES**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 9 March 2011 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 4 May 2011.

#### **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following expressions shall have the following meaning:

“associates”	has the same meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	China Gamma Group Limited, a company incorporated in Bermuda and the issued Shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the same meaning ascribed thereto in the Listing Rules
“Consideration”	the 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), payable in respect of the Proposed Acquisition pursuant to the MOU
“Consideration CN”	unsecured convertible note to be issued by the Company to the Vendor on the completion of the Proposed Acquisition to satisfy part of the Consideration pursuant to the MOU
“Consideration Share(s)”	Shares to be allotted and issued by the Company to the Vendor on the completion of the Proposed Acquisition to satisfy part of the Consideration pursuant to the MOU

“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Group Restructuring”	the restructuring of the Target Group to the effect that the Vendor will hold 100% shares of the Target Company which will hold 100% shares of HK Co., and HK Co. will hold 95% equity interest in Wu Cai Mining which will hold the Vanadium Mines
“Guarantor”	Mr. Zhuang Xu
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK Co.”	Great Thunder Limited, a wholly-owned subsidiary of the Target Company incorporated in Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors
“Independent Shareholder(s)”	Shareholder(s) other than the Subscriber and its associates including Mr. Chan How Chung, Victor
“Independent Third Party(ies)”	third party(ies) and its/their ultimate beneficial owner(s) which is/are independent of the Company and its connected persons (as defined under the Listing Rules)
“JORC”	Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
“JORC Code”	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, published by the JORC
“Last Trading Day”	8 March 2011, being the last trading day on which the Shares were traded on the Stock Exchange prior to suspension of trading in the Shares pending the release of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MOU”	memorandum of understanding entered into among the Purchaser, the Vendor, the Company and the Guarantor on 3 May 2011 in relation to the Proposed Acquisition

“PRC”	Peoples’ Republic of China which, for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Proposed Acquisition”	the proposed acquisition of the Sale Share and the Sale Loan (if any) by the Purchaser from the Vendor
“Purchaser”	Grand Surplus International Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company
“Sale and Purchase Agreement”	the sale and purchase agreement dated 8 March 2011 entered into among the Purchaser, the Vendor, the Company and the Guarantor in relation to the Proposed Acquisition
“Sale Loan”	all obligations, liabilities and debts owing or incurred by the Target Group to the Vendor as at and after the completion of the Proposed Acquisition, whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on the completion of the Proposed Acquisition
“Sale Share”	all the issued share capital of the Target Company
“SGM”	a special general meeting of the Company to be convened to approve the Subscription CN Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder including the issue of the Subscription CN and the shares falling to be issued upon exercise of the Subscription CN
“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
“Subscriber”	Mega Market Assets Limited, a company incorporated in the British Virgin Islands
“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 is to be issued by the Company to the Subscriber under the Subscription CN Agreement (as amended by the Supplemental Agreement)
“Subscription CN Agreement”	a conditional agreement between the Company and the Subscriber dated 8 March 2011 in relation to the subscription of the Subscription CN

“Subscription Completion”	completion of the Subscription CN Agreement (as amended by the Supplemental Agreement) in accordance with the terms thereof
“Subscription Completion Date”	the date of Subscription Completion, which shall be the date as agreed by the Company and the Subscriber after the fulfillment or waiver of the conditions set out in the paragraph headed “Conditions Precedent” under the section “Subscription CN Agreement (as amended by the Supplemental 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 parties
“Supplemental Agreement”	a supplemental agreement between the Company and the Subscriber dated 3 May 2011 in relation to the amendment to the Subscription CN Agreement
“Takeovers Code”	The Code on Takeovers and Mergers
“Target Company”	Park Target Limited, a company incorporated in the British Virgin Islands and wholly owned by the Vendor
“Target Group”	Target Company and its subsidiaries after the Group Restructuring
“Technical Report”	a technical report on the Vanadium Mines prepared by the technical advisers in accordance with the JORC Code and in compliance with the requirements under Chapter 18 of the Listing Rules to be issued by the technical advisers
“VALMIN Code”	the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, adopted by the Australian Institute of Mining and Metallurgy
“Valuation Report”	a valuation report on the Target Group prepared by the independent valuer in accordance with VALMIN Code and in compliance with the requirements under Chapter 18 of the Listing Rules
“Vanadium Mines”	the two mines site located in Xiu Shan County, Chongqing, the PRC with vanadium reserves which are identified as “重慶市秀山縣魚泉鉬鈾礦1號礦山” and “重慶市秀山縣魚泉鉬鈾礦2號礦山” respectively
“Vendor”	Citi Wonder Limited, a company incorporated in the British Virgin Islands and the entire issued share capital of the Vendor is directly owned by the Guarantor

“Wu Cai Mining”

秀山五彩礦業開發有限公司 (Xiu Shan Wu Cai Mining Development Co., Ltd.\*), a company incorporated in the PRC with limited liability

“%”

per cent.

By order of the Board  
**CHINA GAMMA GROUP LIMITED**  
**Ho Chi Ho**  
*Executive Director*

Hong Kong, 3 May 2011

*As at the date of this announcement, the executive director of the Company is Mr. Ho Chi Ho; the non-executor directors of the Company are Mr. Ma Kwok Hung, Waren and Mr. Chow Siu Ngor; and the independent non-executor directors of the Company are Mr. Wong Hoi Kuen, Edmund, Mr. Chan Chi Yuen and Mr. Hung Hing Man.*

\* *The English translation of Chinese names or words in this announcement, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*