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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**

**RESUMPTION OF TRADING**

### **THE SALE AND PURCHASE AGREEMENT**

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 (if any) at a consideration of RMB380,000,000 (equivalent to approximately HK\$454,860,000). 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 (if any).

The Consideration will be satisfied in cash, which will be payable to the Vendor on the Completion Date.

Further information in respect of the Sale and Purchase Agreement are set out in this announcement.

## **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.

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.

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 date of this announcement 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.

A circular containing, among other things, (i) further details of the Sale and Purchase Agreement; (ii) financial information on the Target Group; (iii) the unaudited pro-forma financial information on the Group as enlarged by the Acquisition; and (iv) a notice of the SGM, will be despatched to Shareholders as soon as practicable in accordance with the Listing Rules. 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 30 June 2011.

**The transactions contemplated under the Sale and Purchase Agreement are subject to the fulfillment of a number of conditions precedent and therefore it may or may not be completed. The satisfaction of certain conditions precedent (such as the satisfaction of a due diligence review on the Target Group) under the Sale and Purchase Agreement is at BGCM's discretion. As at the date of this announcement, BGCM is still obtaining the necessary information from the Vendor and such due diligence work is still in progress.**

**Shareholders and potential investors should exercise extreme caution when dealing in the securities of the Company.**

## **SUSPENSION AND 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 1:30 p.m. on 11 May 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 12 May 2011.

## **INTRODUCTION**

The Board is pleased to announce that 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 (if any) at a consideration of RMB380,000,000 (equivalent to approximately HK\$454,860,000). Summaries of the principal terms of the Sale and Purchase Agreement are set out below in this announcement.

## **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 (if any).

### **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 (if any) at a cash consideration of RMB380,000,000 (equivalent to approximately HK\$454,860,000) payable to the Vendor on the Completion Date by telegraphic transfer to the Vendor's designated RMB bank account.

The Consideration shall be financed by the Group's internal resources, bank financing and/or the proposed issue of convertible notes to the Company's substantial shareholder, details of such proposed issue are set out in the Company's announcement dated 3 May 2011. The Directors will carefully monitor the financial position of the Group and where appropriate, the Company may conduct equity/debt financing or re-financing arrangement. Such equity/debt financing or re-financing arrangement, if conducted, will be subject to the market conditions and therefore may or may not be successfully materialised.

### *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;
- (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;
- (v) the competition in the rare earth industry is becoming less keen following the adoption of a series of Chinese 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 which will result in a ready local supply of rare earth concentrates at lower logistic costs to the Target Operator.

### **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;
- (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).

### **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 (if any).

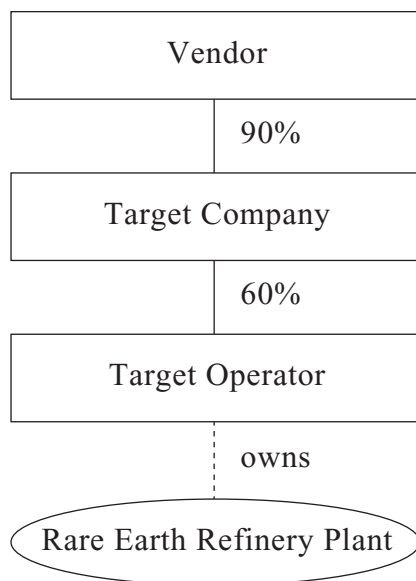
## **INFORMATION ON THE VENDOR, THE TARGET GROUP AND THE TARGET OPERATOR**

### **Group Restructuring**

The Target Group is under a group restructuring in preparation of the Acquisition and the completion and implementation of the Group Restructuring is one of the conditions precedent to the Completion.

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

### After Group Restructuring but before Completion



Upon Completion, the Company will through, a PRC Domestic Enterprise, indirectly hold 90% equity interest in the Target Company, which in turn will hold 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 has not carried out any business or trading. After the Group Restructuring, the Target Company will hold 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.

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 starts operations in May 2011. According to its plan, the remaining additional production lines will be completed and commence operation 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. It follows that the Group will be expected to contribute not more than RMB27,000,000 (equivalent to approximately HK\$32,319,000) out of such RMB50,000,000.

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

### **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 the Completion, the Company through a PRC Domestic Enterprise will be interested in 90% of the equity interest of the Target Company, which will be holding 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 the 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 interim report of the Company for the six months ended 30 September 2010 and the announcement of the Company on the audited financial results of the Group for the year ended 31 March 2011, 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 with high entry barriers but favoured by the Chinese 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 Chinese 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 China 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 Chinese 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 China can produced.

To the knowledge of the Directors, the current price differential between domestic rare earth products in China and FOB prices for the same or similar products in the international market is substantial. For instance, the price of Cerium, being the major and most consumed rare earth element worldwide, for domestic market was about RMB160,000 per tonne at the end of April 2011 and the FOB price for the same product in the international market was about US\$130 per kilogram (equivalent to about RMB844,000 per tonne), which is over 5 times of the domestic prices. It is our belief that following the Chinese 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. According to the information provided by the Vendor to the Board, there is an existing management team in the Target Operator with over 10 years of experience in rare earth refinery and processing, and the Group also has an in-house management team with expertise in the rare earth area. 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 cashflow, and increase profitability for the Group in the long run, and is in the interests of the Company and the Shareholders as a whole.

## **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.

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.

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 date of this announcement 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.

A circular containing, among other things, (i) further details of the Sale and Purchase Agreement; (ii) financial information on the Target Group; (iii) the unaudited pro-forma financial information on the Group as enlarged by the Acquisition; and (iv) a notice of the SGM, will be despatched to Shareholders as soon as practicable in accordance with the Listing Rules. 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 30 June 2011.

**The transactions contemplated under the Sale and Purchase Agreement are subject to the fulfillment of a number of conditions precedent and therefore it may or may not be completed. The satisfaction of certain conditions precedent (such as the satisfaction of a due diligence review on the Target Group) under the Sale and Purchase Agreement is at BGCM's discretion. As at the date of this announcement, BGCM is still obtaining the necessary information from the Vendor and such due diligence work is still in progress.**

**Shareholders and potential investors should exercise extreme caution when dealing in the securities of the Company.**

## **SUSPENSION AND 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 1:30 p.m. on 11 May 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 12 May 2011.

## DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Share and the Sale Loan (if any) 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
“associates”	has the same meaning ascribed thereto in the Listing Rules
“BGCM”	北京伽瑪企業管理有限公司 ( <i>Beijing Gamma Corporate Management Company Limited</i> ), 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
“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
“Group”	the Company and its subsidiaries
“Group Restructuring”	the restructuring of the Target Group to the effect that the Target Company will hold 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)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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
“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, Liang Shan Zhou, Sichuan Province, the PRC
“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
“SGM”	a special general meeting of the Company to be convened to approve the Sale and Purchase Agreement and the transactions contemplated thereunder
“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

“Target Company”	雲南和達投資有限公司 ( <i>Yunan He Da Investments Company Limited*</i> ), a company incorporated in the PRC
“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.

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

Hong Kong, 11 May 2011

*As at the date of this announcement, 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.*

*For the purpose of this announcement, 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.*

*\* 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.*