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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

INTERIM RESULTS

The board of directors (the "**Board**") of China Gamma Group Limited (the "**Company**") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 September 2011 together with the comparative figures for the corresponding period in 2010. The unaudited condensed consolidated interim results have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2011

		Six months ended 30 September	
		2011	2010
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	3	**13,746**	4,540
Cost of sales		**(10,563)**	(2,132)
Gross profit		**3,183**	2,408
Other income		**325**	259
Fair value gains on investment properties	7	**–**	1,084
Net unrealised (losses)/gains on financial assets at fair value through profit or loss		**(3,031)**	1,570
Net realised losses on financial assets at fair value through profit or loss		**(2,027)**	(6,931)
Administrative expenses		**(23,625)**	(23,787)
Loss from operations	4	**(25,175)**	(25,397)
Finance costs		**(604)**	(192)
Loss before taxation		**(25,779)**	(25,589)
Taxation	5	**(843)**	(307)
Loss for the period		**(26,622)**	(25,896)
Attributable to:			
Equity holders of the Company		**(26,322)**	(25,236)
Non-controlling interests		**(300)**	(660)
		(26,622)	(25,896)
Basic loss per share attributable to the equity holders of the Company during the period	6	**(0.83) cents**	(0.88) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2011

	Six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss for the period	**(26,622)**	(25,896)
Other comprehensive income:		
Exchange differences arising from translation of financial statements of foreign operations	**3,006**	1,795
Total comprehensive loss for the period	**(23,616)**	(24,101)
Attributable to:		
Equity holders of the Company	**(23,130)**	(23,441)
Non-controlling interests	**(486)**	(660)
Total comprehensive loss for the period	**(23,616)**	(24,101)

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2011

	Notes	30 September 2011 (Unaudited) HK$'000	31 March 2011 (Audited) HK$'000
Non-current Assets			
Property, plant and equipment		**33,178**	33,804
Land use rights		**12,364**	12,201
Goodwill		**23,592**	23,592
		69,134	69,597
Current Assets			
Inventories		**26,481**	32,777
Properties under development		**43,563**	41,897
Trade and other receivables	8	**35,471**	35,198
Financial assets at fair value through profit or loss	9	**20,802**	5,522
Cash and cash equivalents		**20,945**	19,757
		147,262	135,151
Current Liabilities			
Trade and other payables	10	**58,927**	59,056
Amount due to a non-controlling shareholder of a subsidiary		**20,779**	20,827
Current taxation payable		**–**	79
Interest-bearing bank borrowings		**9,816**	–
		89,522	79,962
Net Current Assets		**57,740**	55,189
Total Assets less Current Liabilities		**126,874**	124,786
Non-current Liabilities			
Interest-bearing bank borrowings		**–**	9,501
Deferred taxation		**11,110**	10,143
		11,110	19,644
Net Assets		**115,764**	105,142
Equity			
Capital and reserves attributable to the Company's equity holders:			
Share capital	11	**32,237**	29,557
Reserves		**79,177**	70,749
		111,414	100,306
Non-controlling interests		**4,350**	4,836
Total Equity		**115,764**	105,142

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 September 2011

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2011.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations issued by the HKICPA, which are effective for the Group's financial year beginning on 1 April 2011.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC)-INT 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-INT 19	Extinguishing Financial Liabilities with Equity Instruments

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

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

HKFRS 7 (Amendments)	Disclosure – Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Amendments)	Presentation of Item of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]

[1] *Effective for annual periods beginning on or after 1 July 2011.*
[2] *Effective for annual periods beginning on or after 1 January 2012.*
[3] *Effective for annual periods beginning on or after 1 July 2012.*
[4] *Effective for annual periods beginning on or after 1 January 2013.*

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

3. SEGMENT INFORMATION

For management purpose, the Group is organised into four (2010: four) major operating divisions – gamma ray irradiation services, property development, rental and sales, trading of building materials and provision of renovation services, and securities trading and investment. These divisions are the basis on which the Group reports its primary segment information.

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

Business segments

For the six months ended 30 September 2011

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

Business segments

For the six months ended 30 September 2010

	Gamma ray irradiation services (Unaudited) *HK$'000*	Property development, rental and sales (Unaudited) *HK$'000*	Trading of building materials and provision of renovation services (Unaudited) *HK$'000*	Securities trading and investment (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
REVENUE					
Turnover	3,236	827	477	–	4,540
Segment results	211	(1,609)	(899)	(5,296)	(7,593)
Unallocated other operating income					120
Unallocated corporate expenses					(17,924)
Loss from operations					(25,397)
Finance costs					(192)
Loss before taxation					(25,589)
Taxation					(307)
Loss before non-controlling interests					(25,896)

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the period (2010: Nil).

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

Information about major customers

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

For the six months ended 30 September 2010, revenues of approximately HK$693,000 and HK$512,000, were derived from sales by gamma ray irradiation services segment to two separate customers, both amounted to 10% or more of the Group's revenues for that period.

4. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging/(crediting):

	Six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Amortisation of land use rights	**238**	226
Cost of sales		
– Depreciation of Cobalt	**1,559**	1,066
– Cost of inventories sold	**7,688**	760
– Depreciation of property, plant and equipment	**496**	204
– Direct cost and operating expenses	**819**	102
Depreciation of property, plant and equipment	**301**	840
Loss on disposal of property, plant and equipment	**1**	9
Interest income	**(13)**	(5)
Gain on disposal of investment properties	**–**	(18)

5. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries in Hong Kong have no assessable profits for the six months ended 30 September 2010 and 2011 respectively. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rate of taxation prevailing in the countries in which the Group operates.

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

	Six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current taxation		
Overseas tax		
– Provision for the period	**221**	33
Deferred taxation		
– Origination and reversal of temporary differences	**622**	274
Income tax expense	**843**	307

6. LOSS PER SHARE

The calculation of the basic loss per share for the six months ended 30 September 2011 is based on the loss for the period attributable to the equity holders of the Company of approximately HK$26,322,000 (2010: HK$25,236,000) and on the weighted average number of 3,160,080,395 shares (2010: 2,867,681,490 shares) in issue during the period.

7. INVESTMENT PROPERTIES

The investment properties were revalued on market value basis by RHL Appraisal Ltd., an independent firm of professional property valuer, and were transferred to properties held for sale on 30 September 2010. No fair value gain had been credited to the income statement for the period (2010: HK$1,084,000).

8. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	30 September 2011 (Unaudited) ***HK$'000***	31 March 2011 (Audited) *HK$'000*
Trade receivables	**3,406**	3,774
Less: allowance for doubtful debts	**2,901**	2,901
Trade receivables, net	**505**	873
Other receivables and prepayments	**34,966**	34,325
	35,471	35,198

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

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

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

	THE GROUP	
	30 September 2011 (Unaudited)	31 March 2011 (Audited)
	HK$'000	*HK$'000*
Up to 30 days	**332**	310
31 to 90 days	**136**	385
91 to 365 days	**37**	178
	505	873

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	THE GROUP	
	30 September 2011 (Unaudited)	31 March 2011 (Audited)
	HK$'000	*HK$'000*
Listed securities held for trading:		
Market value of equity securities listed in Hong Kong	**20,802**	5,522

10. TRADE AND OTHER PAYABLES

	THE GROUP	
	30 September 2011 (Unaudited)	31 March 2011 (Audited)
	HK$'000	*HK$'000*
Trade payables	**65**	81
Other payables and accruals	**58,862**	55,375
Amount due to a director	**–**	3,600
	58,927	59,056

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

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

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

	THE GROUP	
	30 September 2011	31 March 2011
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Up to 30 days	**36**	52
Over 90 days	**29**	29
	65	81

11. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.01 each		
AUTHORISED		
At 31 March 2011 and 30 September 2011	15,000,000,000	150,000
ISSUED AND FULLY PAID		
At 31 March 2011	2,955,681,490	29,557
Issuance upon exercise of share options	268,000,000	2,680
At 30 September 2011	3,223,681,490	32,237

12. CONTINGENT LIABILITIES

At 30 September 2011 and 31 March 2011, the Company had no material contingent liabilities.

13. CAPITAL COMMITMENTS

Capital commitments attributable to acquisitions of subsidiaries:

	THE GROUP	
	30 September 2011	31 March 2011
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Contracted but not provided for		
– Investment cost	**466,258**	–
Authorised but not contracted for		
– Property, plant and equipment	**33,129**	–
	499,387	–

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

14. OPERATING LEASE COMMITMENTS

The Group as lessee

The Group made minimum lease payments of approximately HK$2,670,000 (2010: HK$2,478,000) under operating leases in respect of office premises during the period.

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

	THE GROUP	
	30 September 2011	31 March 2011
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within one year	**3,774**	3,213
In the second to fifth year inclusive	**2,826**	518
	6,600	3,731

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

15. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group during the period are as follows:

	Six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Fees, salary and other short-term employee benefits	**559**	1,469
Pension scheme contributions	**4**	6
	563	1,475

16. EVENTS AFTER THE BALANCE SHEET DATE

A subscription agreement dated 8 March 2011 (the "**Subscription Agreement**") and a supplemental agreement to the Subscription Agreement dated 3 May 2011 were entered into between the Company and Mega Market Assets Limited ("**Mega Market**"), a substantial shareholder of the Company, pursuant to which, the Company shall issue the 1% unsecured convertible notes to Mega Market with principal amount of HK$105,000,000 in a term of 3 years (the "**Convertible Notes**"). The initial convertible price of the Convertible Notes is HK$0.27 per share, subject to adjustment pursuant to the terms of the Subscription Agreement. Details of the Subscription Agreement (as amended by the supplemental agreement) and the Convertible Notes are set out in the Company's announcement and circular dated 3 May 2011 and 17 June 2011 respectively. The Convertible Notes have been issued to Mega Market on 17 October 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 September 2011 (the "**Interim Period**"), the Group recorded a turnover of HK$13,746,000 (six months ended 30 September 2010: HK$4,540,000), representing an increase of 203% compared with previous corresponding period. The increase was mainly attributable to the increase in sales of commercial properties.

Loss from operations for the period was HK$25,175,000 (six months ended 30 September 2010: HK$25,397,000). Net loss attributable to equity holders of the Company for the period amounted to HK$26,322,000 (six months ended 30 September 2010: HK$25,236,000), which was mainly attributable to (1) costs incurred to arrange for realization of its commercial properties and a land parcel in Chongqing. However, as the property market continued to be depressed during the period, the result of realization was not satisfactory; and (2) substantial initial set up costs on conducting various research work, feasibility studies and the establishment of rare resources division etc have been incurred in preparation for the Group's planned participation in the rare earth refinery and processing business during the period under reviewed.

As at 30 September 2011, the unaudited total assets and net assets of the Group were HK$216,396,000 (31 March 2011: HK$204,748,000) and HK$115,764,000 (31 March 2011: HK$105,142,000) respectively. The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2011.

Business Review

During the period under review, the Group announced that it would enter into rare earth refinery and processing business in China. In the Interim Period, 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.

Proposed Strategic Rare Resources Business in China

As underpinned in the 2011 annual report of the Group for the year ended 31 March 2011, the Group has been prudently, actively identifying and pursing 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. As such the Group intended to engage itself in the rare earth refinery and processing business.

The Group has already built up a rare resources division with an experienced and dedicated team of rare resources specialists to help developing the Group's rare resources business. These experts are specialized in development of resources projects, mine processing as well as publications of rare resources exploration regulatory framework in the PRC.

On 11 May 2011, the Group has entered into an agreement to acquire a controlling interest in one of the largest rare earth refinery and processing companies in China, namely 冕寧縣茂源稀土科技有限公司 (Mianning Mao Yuan Rare Earth Technology Company Limited*) ("**Target Company**"), for a cash consideration of RMB380,000,000 (equivalent to about HK$454,860,000). Details of the acquisition are set out in the Company's circular dated 24 August 2011. The consideration will be financed by a combination of the Group's internal resources and equity/debt financing or re-financing arrangements. At present, the Group is in discussion with several parties on the possible fund raising exercises and promising progress has been achieved. The transaction is expected to be completed in the 4th quarter of 2011.

Rare earth elements are scarce natural resources which are indispensable for high technology and green energy technology products. China is the world dominant supplier of rare earth elements and accounts for over 95% of the global market share while Sichuan province accounts for 24% to 30% of the country's total production.

The Target Company operates a fully licensed major rare earth refinery and processing plant situated in Mianning, Sichuan province. It has secured long-term supply of rare earth concentrates from a major rare earth mine and the plant produces a wide range of rare earth processed products including different types of rare earth oxides, metals, and other compounds, and deeply processed products, such as polishing powder, which are indispensable for the industrial and consumer markets including car manufacturing, camera lens and TV panels.

We believe that, through the acquisition, the Group will be able to capture the opportunities in the rare earth market and become one of the major rare earth refinery and processing operators in China in the coming future.

During the Interim Period, the Group also entered into a memorandum of understanding in relation to a proposed acquisition of a controlling interest in a mining company whose business scope includes development of vanadium mines and mining, processing and sale of vanadium. The proposed acquisition is subject to further negotiation and should all the commercial terms be agreed upon, the execution and completion of the formal 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. The negotiation is on-going and no formal agreement has been executed. In considering whether to proceed with the proposed acquisition, the Company will also take into consideration factors including terms of the agreement, if materialized; market condition and economic environment; and financial resources available for the Group, with a view to optimize the allocation of the resources of the Group and to enhance shareholders' value.

Gamma Ray Irradiation Services

The Group's gamma ray irradiation business is conducted through 淄博利源高科輻照技術有限公司 (Zibo Liyuan Gamma Ray Technologies Co. Limited*), a 80% owned subsidiary of the Group. Turnover generated from the gamma ray irradiation services in the Interim Period was approximately HK$4,500,000 (six months ended 30 September 2010: HK$3,236,000) which accounted for approximately 33% of the Group's total turnover. This segment reported a profit of approximately HK$297,000 (six months ended 30 September 2010: HK$211,000).

Property Development, Rental and Sales

Turnover generated from the property development, rental and sales was approximately HK$8,653,000 for the period (six months ended 30 September 2010: HK$827,000). Segment loss amounted to HK$844,000 (six months ended 30 September 2010: HK$1,609,000). The improvement of the operating results was mainly attributable to increase in sale of commercial properties including shops and car park lots in Chongqing.

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

Trading of Building Materials and Provision of Renovation Services

The operating environments of building materials trading and renovation services remained harsh since the inception of the period under review. Turnover of the segment increased 24% to approximately HK$593,000 (six months ended 30 September 2010: HK$477,000). The segment suffered a loss of approximately HK$518,000 (six months ended 30 September 2010: HK$899,000), which was mainly attributable to a decrease in operating costs.

Securities Trading and Investment

During the Interim Period, the global stock markets remained volatile amid the influence of European sovereign debt crisis and concerns over global economic recovery. Due to both unrealised and realised losses on equity investments held for trading, this segment reported a loss of HK$5,063,000 (six months ended 30 September 2010: HK$5,296,000).

Prospect

The Group is ready to embark upon the strategic rare resources business in China, in particular, the rare earth refinery and processing operations. The proposed acquisition possesses the newest rare earth refinery and processing facilities in Sichuan with the most up to date equipment. The whole facility has just started operation in October 2011. In order to further improve the refinery technology know-how and management expertise, we will explore the opportunities of forming strategic partnership with international rare earth players, so as to enhance the overall operation efficiency of the facilities. We are optimistic that the rare earth refinery and processing operations will make a significant and positive contribution to the cash flows and revenue of the Group in the near future and we are very confident in the potentials of rare earth market in the coming future.

Property, Plant and Equipment

During the Interim Period, there were additions of HK$657,000 (six months ended 30 September 2010: HK$3,497,000) to property, plant and equipment to expand the Group's operations.

Capital Investment and Commitments

Details of significant capital commitments of the Group and the Company are set out in note 13 to the financial statements of this announcement.

Liquidity and Financial Resources

As at 30 September 2011, the Group had cash and cash equivalents of HK$20,945,000 (31 March 2011: HK$19,757,000). This was mainly the net result of the proceeds on exercise of share options and the cash used in operating activities. Short term and long term bank borrowings as at 30 September 2011 were HK$9,816,000 (31 March 2011: Nil) and Nil (31 March 2011: HK$9,501,000) respectively. The gearing ratio, being the ratio of total bank borrowings to total equity as at 30 September 2011 was 8.48% (31 March 2011: 9.04%). The liquidity ratio, being the ratio of current assets over current liabilities as at 30 September 2011 was 165% (31 March 2011: 169%).

With the financial resources available, the Group has sufficient working capital to meet its present requirements.

Pledge of Assets

At 30 September 2011, the Group's land use rights and certain property, plant and equipment with carrying amount of approximately HK$16,020,000 (31 March 2011: HK$15,877,000) were pledged to a bank to secure the bank borrowings granted to the Group.

Contingent Liabilities

As at 30 September 2011, the Company had no significant contingent liabilities (31 March 2011: Nil).

Share Capital Structure

268,000,000 new shares of HK$0.01 each were issued and allotted during the six months ended 30 September 2011 upon exercise of share options granted by the Company.

As at 30 September 2011, the total number of issued shares of the Company was 3,223,681,490. Save as the above, there was no change in the share capital structure of the Company during the period under review.

Connected Transaction

A subscription agreement dated 8 March 2011 (the "**Subscription Agreement**") and a supplemental agreement to the Subscription Agreement dated 3 May 2011 were entered into between the Company and Mega Market Assets Limited ("**Mega Market**"), a substantial shareholder of the Company, pursuant to which, the Company shall issue the 1% unsecured convertible notes to Mega Market with principal amount of HK$105,000,000 in a term of 3 years (the "**Convertible Notes**"). The initial convertible price of the Convertible Notes is HK$0.27 per share, subject to adjustment pursuant to the terms of the Subscription Agreement. Details of the Subscription Agreement (as amended by the supplemental agreement) and the Convertible Notes are set out in the Company's announcement and circular dated 3 May 2011 and 17 June 2011 respectively. The transaction has been approved in a special general meeting of the Company held on 5 July 2011. The Convertible Notes have been issued to Mega Market on 17 October 2011.

Material Acquisitions and Disposals of Subsidiaries

On 8 March 2011, the Group entered into an agreement with Citi Wonder Limited ("**Citi Wonder**") and Mr. Zhuang Xu in relation to a proposed acquisition of the entire issued share capital of Park Target Limited ("**Park Target**") and the loan due from Park Target to Citi Wonder (the "**Proposed Acquisition**"). On 3 May 2011, the parties entered into a memorandum of understanding in relation to the Proposed Acquisition to replace the said agreement (the "**MOU**"). Pursuant to the MOU, the consideration for the Proposed Acquisition is 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 MOU and the Proposed Acquisition are set out in the Company's announcement dated 3 May 2011.

On 11 May 2011, 北京伽瑪企業管理有限公司(Beijing Gamma Corporate Management Company Limited*) ("**BGCM**"), a wholly-owned subsidiary of the Company in the PRC, entered into a sale and purchase agreement with Mr. Hu Zhengzhi ("**Mr. Hu**"), pursuant to which BGCM has conditionally agreed to purchase and Mr. Hu has conditionally agreed to dispose of 90% of the equity interest of 雲南和達投資有限公司(Yunnan He Da Investments Company Limited*) and sale loan at a consideration of RMB380,000,000. Details of the transaction are set out in the Company's announcement and circular dated 11 May 2011 and 24 August 2011 respectively. The transaction has not yet completed up to the reporting date.

Save as disclosed herein, the Group had no material acquisition and disposal of subsidiaries during the six months ended 30 September 2011.

Litigations

On 24 October 2007, Silver Wind International Limited ("**Silver Wind**"), a wholly owned subsidiary of the Company, entered into a conditional agreement (the "**Acquisition Agreement**") with Stronway Development Limited ("**Stronway Development**"), pursuant to which Silver Wind agreed to acquire from Stronway Development the entire equity interest in Winmax Asia Investment Limited ("**Winmax Asia**"). Under the arrangement, Winmax Asia 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.

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

Exposure to Exchange Rate Risk and Interest Rate Risk

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

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

Staff

As at 30 September 2011, the Group employed 57 employees. Remuneration packages are generally structured by reference to market terms and individual merits. Salaries are reviewed periodically based on performance appraisal and other relevant factors. Staff benefits plans maintained by the Group include medical insurance, hospitalization scheme, mandatory provident fund and share option scheme.

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

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2011 (30 September 2010: Nil).

CORPORATE GOVERNANCE

During the six months ended 30 September 2011, the Company was in compliance with the code provisions set out in the Code on Corporate Governance Practices (the "**Code**") in Appendix 14 to the Listing Rules, except for the following:

Code Provision A2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company does not at present have a chairman nor a chief executive officer. Nevertheless, the main duties and responsibilities of a chairman and a chief executive officer are currently held by separate individuals with written guidelines for the division of responsibilities with a view to maintain an effective segregation of duties between the management of the Board and the day-to-day management of the Group's business and operations.

The Company will continue to review the effectiveness of the Group's corporate governance structure and to consider the appointment of a chairman of the Board and a chief executive officer if candidates with suitable leadership, knowledge, skills and experience can be identified within or outside the Group.

Code Provision A4.1 stipulates that non-executive directors should be appointed for specific terms, subject to re-election. Save for Mr. Wong Hoi Kuen, none of the independent non-executive Directors is appointed for a specified term but their terms of office are the period up to their retirement by rotation in accordance with the Company's bye-laws. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Specific enquiry has been made to all the Directors and the Directors have confirmed that they have complied the Mode Code throughout the six months ended 30 September 2011.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters in relation to the preparation of the unaudited condensed financial statements for the six months ended 30 September 2011.

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

During the six months ended 30 September 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The results announcement of the Group for the six months ended 30 September 2011 is published on the websites of The Stock Exchange of Hong Kong Limited (http://www.hkexnews.hk) and the Company (http://finance.thestandard.com.hk/en/0164chinagamma) respectively. The 2011 interim report of the Company will be despatched to the shareholders of the Company and made available on the above websites in due course.

By order of the Board
China Gamma Group Limited
Ho Chi Ho
Executive Director

Hong Kong, 9 November 2011

As at the date of this announcement, the Board comprises six Directors, of which an executive Director, namely Mr. Ho Chi Ho, two are non-executive Directors, namely Mr. Ma Kwok Hung, Warren and Mr. Chow Siu Ngor and three are independent non-executive Directors, namely Mr. Wong Hoi Kuen, Mr. Chan Chi Yuen and Mr. Hung Hing Man.

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