



NEPTUNE GROUP LIMITED
海王國際集團有限公司

(Incorporated in Hong Kong with limited liability)
stock code: 00070



Interim Report **2010-11**

Neptune Group Limited

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Neptune Group Limited

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors:

Mr. Lin Cheuk Fung (*Chairman*)

Mr. Nicholas J. Niglio

Mr. Chan Shiu Kwong, Stephen

Mr. Lau Kwok Hung

Mr. Wan Yau Shing, Ban

Independent non-executive directors:

Mr. Cheung Yat Hung, Alton

Mr. Yue Fu Wing

Mr. Chan Choi Kam

COMPANY SECRETARY

Mr. Lau Kwok Hung

AUDIT COMMITTEE

Mr. Cheung Yat Hung, Alton

Mr. Yue Fu Wing

Mr. Chan Choi Kam

AUDITORS

CCIF CPA Limited

34/F, The Lee Gardens

33 Hysan Avenue,

Causeway Bay, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

Chong Hing Bank Limited

LEGAL ADVISORS

Robertsons Solicitors & Notaries

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Rooms 1712-16, 17th Floor

Hopewell Centre

183 Queen's Road East

Hong Kong

REGISTERED OFFICE

Room 1601, 16/F

China United Centre

28 Marble Road

North Point

Hong Kong

E-MAIL

enquiry@neptune.com.hk

STOCK CODE

00070

Neptune Group Limited

CHAIRMAN'S STATEMENT

For the past six months, we, as company pooled all our strengths and resources to apply it selectively without fear, so we may weather the past economic storm. The company stood firm in direct contrast to weak economic data that trickled in for our perusal. I believe we now have turned the corner and see brighter days ahead globally. However, in the true tradition of our company core value, we remain vigilant. Concerned for the welfare and well being of our shareholders and employees, we carefully evaluate all opportunities that come forward. That being said, I am pleased to pen the near executed purchase of a 25% stake in RJB Recycling Environment Orleans located in Orleans, France. The planed diversification of the company assets holds exciting future potential for all. Unequivocally, we remain committed to our historic investment in the Macau gaming sector. However, as mentioned in previous communiqué the company will not hesitate to acquire through diversification, assets to improve our balance sheet. This transaction is near complete and I'm confident others may follow.

Our returns in Macau remain strong and consistent. Current economic indicators in the SAR lend to further prosperity for all. The leadership of the current government is committed to expanding this prosperity to its businesses and citizens. Wisdom in regulating the gaming sector is evident. Expansion continues at a pace in harmony to the country's infrastructure. For us to be a part of this renaissance is most gratifying.

Our strategy and goals remain clear, shareholder value, employee valuation and brand recognition and maturity. Our performance, our transparency and our reputation remain paramount. This will never change. The overall general improvement in the economy brings more confidence to us in our quest for growth. Our forecast for the coming six months is more positive sentiment towards the global economy. Our motivation is positive and we will make every effort to sustain our growth to the mutual benefit of our shareholders and employees. Thank you for your continued support of the Group.

Lin Cheuk Fung

Chairman of the Board

Hong Kong, 24 February, 2011

Neptune Group Limited

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The unaudited net profit of the Group for the six month period ended 31 December 2010 amounted to approximately HK\$199,248,000 (2009: profit HK\$94,683,000); earning per share of HK3.12 cents a share, up from the same period last year of HK0.76 cents earning per share.

Our net profit mainly comprised of contributions from Gaming segment which amounted to HK\$204 million and the rental income from cruise leasing also had HK\$6.9 million for the six month period. Loss on redemption of convertible bonds and imputed interest incurred thereof adding to HK\$10 million cost has been expended including share of administration cost and finally arrived at a net profit of HK\$199 million.

Compared with the same period last year, profit was much lower than this year only because there were some adjustments such as the impairment loss on intangible assets of HK\$155 million was reduced to HK\$85 million and share of loss of an associate amounted to HK\$77 million did not exist in this period anymore. In contrast, we had reduced our finance cost to HK\$1 million from HK\$8.8 million in the same period last year. The guarantee profit amount was increased by HK\$33 million and arrived at HK\$102 million.

We expect the profit contribution from gaming segment will still generate a reliable source of working capital but the future profit will be greatly affected when the guarantee period of two profit agreements (Neptune Ouro Profit Agreement and Hao Cai Profit Agreement) had been expired on 31 December 2010.

In order to rejuvenate our overall profitability, management took action to diversify our investment by entered into agreement with RJB Recycling. It will become an associated company of our group and we will share their success in coming years ahead.

Neptune Group Limited

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

GAMING RELATED BUSINESS

Revenue for the commission from rolling turnover for six months period ended 31 December 2010 was recorded approximately HK\$180,416,000 (2009: HK\$183,890,000). Investments in gaming segment had contributed more than 93% of our group profit, The contribution of profit guarantee from Neptune Ouro Profit Agreement and Hao Cai Profit Agreement were in total amount of 102 million for the immediate six month period and no further profit guarantee will be rewarded. As compare to same period last year, our share of profit from interest in associate has improved to HK\$7.2 million instead of share of loss from interest in associate, which amounted to HK\$77 million in the corresponding period last year.

Looking ahead, management committed to our historic investments in the Macau gaming sector and shall continue to seek other investment opportunities in many countries bringing back good investment return in order to increase shareholder value as a whole.

CRUISE BUSINESS

Revenue for the leasing of the cruise ship for six months was recorded HK\$12,000,000 (2009: HK\$12,000,000) when compared with last year. Segment result amounted for six month period was approximately HK\$6,933,000 (2009: HK\$2,712,000). Income from cruise rental of HK\$12,000,000 was same with last year. Only because of some furniture and fitting installed were now fully depreciated that brought down the depreciation cost and ultimately pushed up the book profit. As cruise line owner, management are looking to up the ante in quality service and entertainment programs to keep pace with ever changing needs of our customers so that we never fell short of our rivals in this market.

INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 31 December 2010 (2009: HK\$Nil).

Neptune Group Limited

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group had net current assets of HK\$198,701,000 as at 31 December 2010 (30 June 2010: HK\$217,390,000). There were no bank and other borrowings as at 31 December 2010 (30 June 2010: HK\$Nil). The total equity of the Group for the period ended as at 31 December 2010 was HK\$1,785,766,000 (30 June 2010: HK\$1,787,379,000). The gearing ratio, calculated on the basis of total debt (which comprises convertible notes) over total shareholders' funds as at 31 December 2010, was approximately 1.9% (30 June 2010: 11.4%).

The total indebtedness of the Group comprises mainly of convertible notes. As at 31 December 2010, the face value of total indebtedness approximately amounted to HK\$376,149,000 (30 June 2010: HK\$355,149,000) which comprising of HK\$223 million dividend payable, HK\$113 million amount due to an associate, HK\$13 million trade payable and other payables HK\$1.8 million tax payable, HK\$3.8 million deferred tax and the liability component of two convertible notes were only HK\$21 million after our cash redemption to bond holders over the past few years. At the beginning, there were convertible bond I of HK\$846,000,000, with a conversion price of HK\$0.3 per share, and convertible bond II of HK\$138,000,000, with a conversion price of HK\$0.3 per shares, all of which were unsecured, with effective interest rate of approximately 5% and maturing on 16 March 2018.

PLEDGE OF GROUP'S ASSETS

As at 31 December 2010, no leasehold land and buildings in Hong Kong of the Group were pledged to secure the bank facilities (30 June 2010: HK\$NIL).

EMPLOYEES

The Group employs approximately 10 staff in Hong Kong and their remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

During the period ended 31 December 2010, the Company has, as far as possible, complied with the provisions of the Code on Corporate Governance Practices (the “Code Provisions”) as set out in Appendix 14 of the Listing Rules, except for the deviation from Code Provision A.4.1 which is described below:

- Non-executive directors should be appointed for specific terms and subject to re-elections. All independent non-executive directors of the Company are not appointed for specific terms, but subject to retirement by rotations and re-elections at the annual general meeting of the Company in accordance with Bye-Laws of the Company.

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Model Code during the period ended 31 December, 2010.

THE BOARD OF DIRECTORS

(a) Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making. The Board currently comprises five executive directors, and three independent non-executive directors.

(b) Roles of Chairman and Chief Executive Officer

The Code Provision A.2.1 stipulates that the roles of chairman of the Board (the “Chairman”) and chief executive officer (the “CEO”) should be separated and should not be performed by the same individual and that the division of responsibilities between the Chairman and the CEO should be clearly stated. The Company fully supports such a division of responsibility between the Chairman and the CEO in order to ensure a balance of power and authority. The positions of the chairman of the Board and the chief executive officer are segregated and are held by Mr. Lin Cheuk Fung and Mr. Nicholas J. Niglio respectively. These positions have clearly defined separate responsibilities.

Neptune Group Limited

CORPORATE GOVERNANCE REPORT *(continued)*

THE BOARD OF DIRECTORS *(continued)*

(b) Roles of Chairman and Chief Executive Officer *(continued)*

The chairman is responsible for leading and supervising the operations of the Board of Directors, effective planning of board meetings, ensuring the Board is acting to the best interests of the Company.

The chief executive officer is responsible for the administration of the Company business, as well as to formulate and implement Company policies, and answerable to the Board in relation to the Company overall operation.

(c) Responsibilities

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the executive director or officer in charge of each division. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely Mr. Cheung Yat Hung, Alton, Mr. Yue Fu Wing and Mr. Chan Choi Kam. Mr. Yue Fu Wing possesses relevant professional qualifications and financial management expertise and meets the requirements of rule 3.2.1 of the Listing Rules.

The audit committee has clear terms of reference and is accountable to the Board. It assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance and in meeting its external financial reporting objectives.

The interim report and the unaudited condensed consolidated interim financial statements for the six months ended 31 December 2010 has been reviewed by the audit committee and agreed to the accounting principles and practices adopted by the Company.

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CORPORATE GOVERNANCE REPORT *(continued)*

REMUNERATION COMMITTEE

The remuneration committee comprises two independent non-executive directors and one executive director. The remuneration committee was established with specific written terms of reference and is principally responsible for reviewing and approving remuneration packages of directors and senior management, including salaries, bonuses, benefits in kind and the terms on which they participate in any share option schemes. No director or senior management will determine his own remuneration.

ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

I. Shares

As at 31 December 2010, the interest of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long position in ordinary shares of the Company

Director	Nature of interest	Number of ordinary shares held	Percentage of shares held
Mr. Lin Cheuk Fung	Personal	375,000,000	9.75%

Note: Save as disclosed above and other than certain nominee shares in the subsidiaries held by directors in trust for the Company, none of the Company's directors or their associates had any interests, or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO.

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ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES *(continued)*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

II. Options

The Company operates a share option scheme (the "Scheme") under which the directors may, at their discretion, grant options to employee, including any of the directors of the Company, to subscribe for shares in the Company, subject to the stipulated terms and conditions.

Share options of the Company

Name of director	Number of ordinary share options held	Percentage of outstanding options As at 31 December 2010
Mr. Lin Cheuk Fung	2,390,000	3.93%
Mr. Chan Shiu Kwong, Stephen	2,388,000	3.93%
Mr. Lau Kwok Hung	2,388,000	3.93%
Mr. Wan Yau Shing, Ban	26,000,000	42.79%
Mr. Nicholas J. Niglio	2,300,000	3.78%
Mr. Chan Choi Kam	23,000,000	37.85%

Save as disclosed above, none of the Company's directors and chief executives or their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or had exercised any such rights during the period ended 31 December 2010.

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ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES *(continued)*

SUBSTANTIAL SHAREHOLDERS AND INTERESTS DISCLOSABLE UNDER THE SFO

At 31 December 2010, the following interest of 5% or more of the issued share capital of the Company were recorded in the register of interest required to be kept by the Company pursuant to Section 336 of the SFO.

Name of shareholders	Number of ordinary shares Shares held	Percentage of shares held
Mr. Lin Cheuk Fung	375,000,000	9.75%
Ultra Choice Limited	720,000,000	18.71%
Faith Mount Limited	720,000,000	18.71%

Details of the above interests of Mr. Lin Cheuk Fung are also disclosed above under directors' interest in securities. Save as disclosed above, no person had registered an interest of 5% or more of the share capital of the Company that was required to be recorded under Section 336 of the SFO as at 31 December 2010.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at no time during the six months ended 31 December 2010 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in or debenture of the Company or any other body corporate.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period under review.

Neptune Group Limited

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2010

		Six months ended 31 December	
		2010	2009
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	3	192,416	195,890
Cost of sales		(5,067)	(8,608)
Gross profit		187,349	187,282
Other revenue		101,999	68,955
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost	14	–	40,738
Administrative expenses		(2,246)	(4,346)
Share of results of an associate		7,249	(76,590)
(Loss)/Gain on redemption of convertible notes		(9,001)	40,776
Impairment loss of intangible assets	10	(85,200)	(154,600)
Fair value changes on financial assets at fair value through profit or loss		–	257
Profit from operations		200,150	102,472
Finance costs	5	(1,025)	(8,841)
Profit before taxation	4	199,125	93,631
Income tax credit	6	123	1,052
Profit for the period		199,248	94,683
Other comprehensive income/(loss) for the period		–	–
Total comprehensive income for the period		199,248	94,683

Neptune Group Limited

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(continued)

For the six months ended 31 December 2010

		Six months ended	
		31 December	
		2010	2009
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Attributable to:			
– Non-controlling interests		79,039	65,253
– Equity holders of the Company		120,209	29,430
Net profit and total comprehensive income for the period			
		199,248	94,683
Dividend	7	–	–
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	8(a)	3.12 cents	0.76 cents
Diluted	8(b)	3.12 cents	(0.06 cents)

The notes on pages 18 to 34 form part of this interim financial report.

Neptune Group Limited

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2010

		31 December 2010 (Unaudited) HK\$'000	30 June 2010 (Audited) HK\$'000
	<i>Notes</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	9	99,406	103,527
Investment properties		38,760	38,760
Interest in an associate		56,973	49,724
Intangible assets	10	1,406,393	1,491,593
Goodwill		10,483	10,483
		1,612,015	1,694,087
Current assets			
Trade and other receivables	11	512,679	411,043
Securities held for trading		426	426
Dividend receivable from an associate		27,455	27,455
Derivative financial instruments		–	–
Cash and bank balances		9,340	9,517
		549,900	448,441
Total assets		2,161,915	2,142,528
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	12	38,472	38,472
Reserves		1,072,422	969,441
		1,110,894	1,007,913
Non-controlling interests		674,872	779,466
Total equity		1,785,766	1,787,379

Neptune Group Limited

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

As at 31 December 2010

	31 December 2010 (Unaudited) <i>Notes</i>	30 June 2010 (Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
LIABILITIES		
Non-current liabilities		
Deferred tax liabilities	3,855	9,161
Convertible notes	21,095	114,937
	<i>13</i>	
	24,950	124,098
Current liabilities		
Accruals and other payables	13,246	19,775
Amount due to an associate	113,381	–
Dividend payable to non-controlling shareholders	222,743	209,447
Tax payable	1,829	1,829
	351,199	231,051
Total liabilities	376,149	355,149
Total equity and liabilities	2,161,915	2,142,528
Net current assets	198,701	217,390
Total assets less current liabilities	1,810,716	1,911,477

The notes on pages 18 to 34 form part of this interim financial report.

Neptune Group Limited

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2010 (Unaudited)

	Equity attributable to equity holders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Convertible notes HK\$'000	Non-distributable reserve HK\$'000	Share option reserve HK\$'000	(Accumulated losses)/ retained profit HK\$'000	Sub total HK\$'000	Non-controlling interest HK\$'000	Total equity HK\$'000
At 1 July 2010 (Audited)	38,472	910,015	80,366	2,264	9,562	(32,766)	1,007,913	779,466	1,787,379
Total comprehensive income for the period	-	-	-	-	-	120,209	120,209	79,039	199,248
Redemption of convertible notes	-	-	(76,291)	-	-	53,880	(22,411)	-	(22,411)
Dividend payable to non-controlling interest	-	-	-	-	-	-	-	(183,633)	(183,633)
Deferred tax credit arising on redemption of convertible notes	-	-	5,183	-	-	-	5,183	-	5,183
At 31 December 2010 (Unaudited)	38,472	910,015	9,258	2,264	9,562	141,323	1,110,894	674,872	1,785,766

For the six months ended 31 December 2009 (Unaudited)

	Equity attributable to equity holders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Convertible notes HK\$'000	Non-distributable reserve HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Sub total HK\$'000	Non-controlling interest HK\$'000	Total equity HK\$'000
At 1 July 2009 (Audited)	769,449	179,038	377,213	2,264	27,008	(220,897)	1,134,075	644,197	1,778,272
Total comprehensive income for the period	-	-	-	-	-	29,430	29,430	65,253	94,683
Redemption of convertible notes	-	-	(167,594)	-	-	50,809	(116,785)	-	(116,785)
Deferred tax credit arising on redemption of convertible notes	-	-	12,541	-	-	-	12,541	-	12,541
Capital reduction	(730,977)	730,977	-	-	-	-	-	-	-
At 31 December 2009 (Unaudited)	38,472	910,015	222,160	2,264	27,008	(140,658)	1,059,261	709,450	1,768,711

The notes on pages 18 to 34 form part of this interim financial report.

Neptune Group Limited

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2010

	Six months ended	
	31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash generated from operating activities	139,388	254,063
Net cash used in investing activities	(946)	(7,720)
Net cash used in financing activities	(138,619)	(276,800)
Increase in cash and cash equivalents	(177)	(30,457)
Cash and cash equivalents at beginning of period	9,517	40,386
Cash and cash equivalents at end of period	9,340	9,929
Analysis of balances of cash and cash equivalents		
Cash and bank balances	9,077	9,665
Cash at securities companies	263	264
	9,340	9,929

The notes on pages 18 to 34 form part of this interim financial report.

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2010

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 24 February 2011.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 30 June 2010, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ending 30 June 2011. Details of these changes in accounting policies are set out in note 2.

2. CHANGE IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments of HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group’s financial statements:

- Improvements to HKFRSs (2009)
- HK (int) 5, *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The issuance of HK (Int) 5 have had no material impact on the Group’s financial statements as the Interpretation’s conclusions were consistent with policies already adopted by the Group. The other development resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The amendment introduced by the *Improvements to HKFRSs (2009)* omnibus standard in respect of HKAS 17, *Leases*, resulted in a change of classification of certain of the Group’s leasehold land interests located in the Hong Kong Special Administrative Region, but this had no material impact on the amounts recognised in respect of these leases as the Group has no lease premiums in the current period.

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

For the six months ended 31 December 2010

3. TURNOVER AND SEGMENT REPORTING

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are leasing of the cruise ship and receiving the profit streams from gaming and entertainment related business.

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- the gaming and entertainment segment: this segment receives the profit streams from gaming and entertainment related business. The activities were carried out in Macau.
- the cruise leasing segment: this segment leases the Group's cruise ship to generate rental income. Currently, the Group's cruise ship is located in Hong Kong and high sea.

(a) Segment Results, Assets and Liabilities

For the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade and other payables attributable to the sales activities of the individual segments and borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit/(loss) is "adjusted operating profit/(loss)". To arrive at "adjusted operating profit/(loss)", the Group's profit/(loss) are further adjusted for items not specifically attributable to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs. Taxation charge is not allocated to reporting segments. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

For the six months ended 31 December 2010

3. TURNOVER AND SEGMENT REPORTING *(continued)*

(a) Segment Results, Assets and Liabilities *(continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for six months ended 31 December 2010 and 31 December 2009 is set out below.

Segment results

	Six months ended 31 December 2010 (Unaudited)		
	Gaming and entertainment <i>HK\$'000</i>	Cruise ship leasing <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:			
Revenue from external customers	180,416	12,000	192,416
Inter-segment revenue	-	-	-
Reportable segment revenue	<u>180,416</u>	<u>12,000</u>	<u>192,416</u>
Reportable segment profit	<u>204,449</u>	<u>6,933</u>	<u>211,382</u>
Interest income	-	1	1
Compensations from vendors for shortfall in guaranteed profit (Note)	101,998	-	101,998
Share of profit of an associate	7,249	-	7,249
Impairment loss on intangible assets	(85,200)	-	<u>(85,200)</u>

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2010

3. TURNOVER AND SEGMENT REPORTING (continued)

(a) Segment Results, Assets and Liabilities (continued)

Segment results (continued)

	Six months ended 31 December 2009 (Unaudited)		
	Gaming and entertainment <i>HK\$'000</i>	Cruise ship leasing <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:			
Revenue from external customers	183,890	12,000	195,890
Inter-segment revenue	–	–	–
Reportable segment revenue	183,890	12,000	195,890
Reportable segment profit	21,636	2,712	24,348
Interest income	1	–	1
Compensations from the vendors for shortfall in guaranteed profit (Note)	68,951	–	68,951
Share of loss of an associate	(76,590)	–	(76,590)
Impairment loss on intangible assets	(154,600)	–	(154,600)

Note:

Pursuant to the profit guarantee agreements in respect of the acquisition of Sky Advantage Limited (“Sky Advantage”) and Profit Forest Limited (“Profit Forest”) in prior years, the Group is entitled to receive compensations from vendors, which are non-controlling shareholders of Sky Advantage and Profit Forest and the substantial shareholders of the Company, for Sky Advantage’s and Profit Forest’s failure to achieving a predetermined guaranteed profits for the period up to 31 December 2010.

During the periods ended 31 December 2010 and 2009, profit generated from Sky Advantage and Profit Forest did not meet the guaranteed profits under the relevant profit guarantee agreements, and accordingly the Group is entitled to receive the compensations from the vendors for shortfall in guarantee profits of Sky Advantage and Profit Forest.

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

For the six months ended 31 December 2010

3. TURNOVER AND SEGMENT REPORTING *(continued)*

(b) Reconciliation of reportable segment revenue and profit or loss

	For the six months ended	
	31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
Revenue		
Reportable segment revenue	192,416	195,890
Elimination of inter-segment revenue	–	–
<hr/>		
Consolidated turnover	192,416	195,890
<hr/>		
Profit or loss		
Reportable segment profit	211,382	24,348
Elimination of inter-segment profits	–	–
<hr/>		
Reportable segment profit derived from Group's external customers	211,382	24,348
Finance costs	(1,025)	(8,841)
Unallocated head office and corporate expenses and income	(2,231)	(3,390)
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost	–	40,738
(Loss)/Gain on redemption of convertible notes	(9,001)	40,776
<hr/>		
Consolidated profit before taxation:	199,125	93,631
<hr/>		

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

For the six months ended 31 December 2010

3. TURNOVER AND SEGMENT REPORTING *(continued)*

(c) Segment assets and liabilities

	Gaming and entertainment <i>HK\$'000</i>	Cruise ship leasing <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2010 (unaudited):			
Reportable segment assets	2,009,782	105,115	2,114,897
(including interest in associate)	56,973	–	56,973
Reportable segment liabilities	336,142	–	336,142
At 30 June 2010 (audited):			
Reportable segment assets	1,988,281	109,850	2,098,131
(including interest in associate)	49,724	–	49,724
Reportable segment liabilities	209,465	5,668	215,133

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

For the six months ended 31 December 2010

3. TURNOVER AND SEGMENT REPORTING *(continued)*

(d) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities

	31 December 2010 (Unaudited) HK\$'000	30 June 2010 (Audited) HK\$'000
Assets		
Reportable segment assets	2,114,897	2,098,131
Investment properties	38,760	38,760
Unallocated head office and corporate assets	8,258	5,637
	<hr/>	<hr/>
Consolidated total assets	2,161,915	2,142,528
Liabilities		
Reportable segment liabilities	336,142	215,133
Convertible notes	21,095	114,937
Income tax payable	1,829	1,829
Deferred tax liabilities	3,855	9,161
Unallocated head office and corporate liabilities	13,228	14,089
	<hr/>	<hr/>
Consolidated total liabilities	376,149	355,149

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2010

3. TURNOVER AND SEGMENT REPORTING (continued)

(e) Geographical information

The Group's business operates in two principal geographical areas – Hong Kong and Macau. In presenting information on the basis of geographical segments, segment turnover is based on the location of customers. Non-current assets are based on the physical location of the assets, in case of property, plant and equipment, the location of the operation to which they are allocated, in case of intangible assets and goodwill, and the location of operations, in case of interests in an associate.

	Hong Kong		Macau	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Turnover from external customers	12,000	12,000	180,416	183,890
	31 December 2010 (Unaudited) HK\$'000	30 June 2010 (Audited) HK\$'000	31 December 2010 (Unaudited) HK\$'000	30 June 2010 (Audited) HK\$'000
Non-current assets	138,211	142,333	1,473,804	1,551,754

(f) Major customer

Revenue of approximately HK\$75,618,000 (2009: HK\$77,481,000), HK\$69,751,000 (2009: HK\$76,537,000) and HK\$23,250,000 (2009: HK\$25,512,000) are derived from the largest external customers, the second largest external customer (which is owned by the beneficial shareholder of a substantial shareholder of the Company) and the third largest external customer (which is owned by the beneficial shareholder of another substantial shareholder of the Company), respectively. Transactions with each of these three customers have exceeded 10% of the Group's turnover.

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2010

4. PROFIT BEFORE TAXATION

	Six months ended	
	31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
Profit from operations is stated after charging:		
Depreciation of property, plant and equipment	5,067	8,629
	<hr/>	<hr/>

5. FINANCE COSTS

	Six months ended	
	31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
Imputed interest on convertible notes	1,025	8,841
	<hr/>	<hr/>

6. TAXATION

	Six months ended	
	31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
Deferred tax:		
Origination and reversal of temporary differences	(123)	(1,052)
	<hr/>	<hr/>
Income tax credit	(123)	(1,052)
	<hr/>	<hr/>

No Hong Kong profits tax and other income taxes has been made as the Group did not have estimated assessable profits subject to any income tax in Hong Kong and other tax jurisdiction concerned during the six months ended 31 December 2010 and 2009.

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2010

7. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend in respect of the six months ended 31 December 2010 (2009: HK\$Nil).

8. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$120,209,000 (2009: HK\$29,430,000) and the weighted average number of 3,847,244,500 ordinary shares (2009: 3,847,244,500 ordinary shares) in issue during the period.

(b) Diluted earnings/(loss) per share

During the six months ended 31 December 2010, the diluted earnings per share was the same as basic earnings per share because the exercise of the Company's outstanding share options and convertible notes were anti-dilutive.

During the six months ended 31 December 2009, the calculation of diluted loss per share is based on the consolidated profit attributable to ordinary equity shareholders of the Company and the weighted average number of approximately 5,594,035,388 ordinary shares in issue during the period after adjusting for the effect of all dilutive potential shares, calculated as follows:

(i) Loss attributable to equity shareholders of the Company (diluted)

	2009 <u>HK\$'000</u>
Profit attributable to equity shareholders	29,430
After tax effect of effective interest on liability component of convertible bonds	7,789
Effect of gain recognised on redemption of convertible notes	<u>(40,776)</u>
Profit attributable to equity shareholders (diluted)	<u>(3,557)</u>

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

For the six months ended 31 December 2010

8. EARNINGS PER SHARE *(continued)*

(b) Diluted earnings/(loss) per share *(continued)*

(ii) Weighted average number of ordinary shares (diluted)

	2009 Shares
Weighted average number of ordinary shares (basic)	3,847,244,500
Effect of conversion of convertible bonds	1,746,790,888
Weighted average number of ordinary shares (diluted)	5,594,035,388

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2010, the Group has acquired property, plant and equipment of approximately HK\$946,000 (six months ended 31 December 2009: Nil) and has not disposed any property, plant and equipment (six months ended 31 December 2009: Nil).

10. INTANGIBLE ASSETS

Rights in sharing of profit streams *HK\$'000*

Cost:

At 30 June 2010, 1 July 2010 and 31 December 2010 2,260,393

Accumulated amortisation and impairment:

At 30 June 2010 and 1 July 2010 768,800

Impairment loss recognised for the period 85,200

At 31 December 2010 854,000

Net book value:

At 31 December 2010 **1,406,393**

At 30 June 2010 1,491,593

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2010

10. INTANGIBLE ASSETS (continued)

Details of rights in sharing of profit streams are as follows:

	Hou Wan Profit Agreement HK\$'000	Neptune Ouro Profit Agreement HK\$'000	Hao Cai Profit Agreement HK\$'000	New Star Profit Agreement HK\$'000	Total HK\$'000
At 30 June 2010 and 1 July 2010	567,793	212,800	638,400	72,600	1,491,593
Impairment loss for the period	-	(21,300)	(63,900)	-	(85,200)
At 31 December 2010	567,763	191,500	574,500	72,600	1,406,363

The intangible assets of the rights in sharing of profit streams are from junket business at the casinos' VIP rooms in Macau for an indefinite period of time. Such intangible assets are carried at cost less accumulated impairment losses.

Impairment loss in respect of rights in sharing of profit streams of approximately HK\$85,200,000 was recognised during the period ended 31 December 2010 by reference to the directors' assessment. The main factor contributing to the impairment was that the estimated profits generated from the Neptune Ouro Profit Agreement and Hao Cai Profit Agreement was decreased.

11. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to 60 days to its trade customers.

The carrying amounts of trade and other receivables approximate to their fair values.

Ageing analysis

Included in trade and other receivables are trade debtors (net of impairment losses for bad and doubtful debt(s)) with the following ageing analysis as of the end of the reporting period:

	31 December 2010 (Unaudited) HK\$'000	30 June 2010 (Audited) HK\$'000
0 – 30 days	30,745	31,789
31 – 60 days	27,673	35,078
61 – 90 days	34,851	35,879
Over 90 days	144,148	92,855
	237,417	195,601

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2010

12. SHARE CAPITAL

	Number of Shares '000	Share Capital HK\$'000
Authorised:		
At 30 June 2010, 1 July 2010 and 31 December 2010		
– Ordinary shares of HK\$0.2 each	50,000,000	500,000

	Number of Ordinary share '000	Share Capital HK\$'000
Issued and fully paid:		
At 30 June 2010, 1 July 2010 and 31 December 2010		
– Ordinary shares of HK\$0.2 each	3,847,245	38,472

13. CONVERTIBLE NOTES

- (a) On 17 March 2008, the Company issued convertible notes due on 16 March 2018 with a principal amount of HK\$846,000,000 which is interest bearing at 1% per annum payable semi-annually in arrears (the "First Convertible Note"). The First Convertible Note due on 16 March 2018 is convertible into fully paid ordinary shares of the Company at an initial conversion price of HK\$0.3 per share, subject to adjustment. The First Convertible Note was issued as part of the consideration for the acquisition of 85% issued share capital of Profit Forest Limited ("Profit Forest"). The effective interest rate is approximately 5%. The holder of the First Convertible Note is Ultra Choice Limited, which is a substantial shareholder of the Company.

During the period, the Company redeemed total principal amount of HK\$108,000,000 (2009: HK\$237,800,000) of the First Convertible Note for a total consideration of HK\$108,000,000 (2009: HK\$237,800,000) (the "Redemptions of the First Convertible Note"), resulting in a loss of approximately HK\$7,715,000 (2009: a gain of approximately HK\$35,122,000) from the Redemption of the First Convertible Note, which was recognized in profit or loss. After the Redemptions of the First Convertible Note, the principal amount of HK\$26,200,000 (At 31 December 2009: HK\$350,200,000) of the First Convertible Note remained outstanding.

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

For the six months ended 31 December 2010

13. CONVERTIBLE NOTES *(continued)*

- (b) On 17 March 2008, the Company issued convertible notes due on 16 March 2018 with a principal amount of HK\$138,000,000 which is interest bearing at 1% per annum payable semi-annually in arrears (the "Second Convertible Note"). The Second Convertible Note due on 16 March 2018 is convertible into fully paid ordinary shares of the Company at an initial conversion price of HK\$0.3 per share, subject to adjustment. The Second Convertible Note was issued as part of the consideration for the acquisition of 85% issued share capital of Sky Advantage Limited ("Sky Advantage"). The effective interest rate is approximately 5%. The holder of the Second Convertible Note is Faith Mount Limited, which is a substantial shareholder of the Company.

During the period, the Company redeemed total principal amount of HK\$18,000,000 (2009: HK\$39,000,000) of the Second Convertible Note for a total consideration of HK\$18,000,000 (2009: HK\$39,000,000) (the "Redemptions of the Second Convertible Note"), resulting in a loss of approximately HK\$1,286,000 (2009: HK\$5,654,000) from the Redemption of the Second Convertible Note, which was recognized in profit or loss. After the Redemptions of the Second Convertible Note, the principal amount of HK\$1,500,000 (At 31 December 2009: HK\$55,500,000) of the Second Convertible Note remained outstanding.

The convertible notes contain liability component, equity component and redemption option. The equity component is presented in equity heading "convertible notes reserve" and the redemption option is presented in current assets heading "derivative financial instruments".

	First Convertible Note	Second Convertible Note	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 July 2010	100,355	14,582	114,937
Interest expenses charged	925	100	1,025
Interest expenses payable	(250)	(27)	(277)
Redemption of convertible notes	(81,077)	(13,513)	(94,590)
At 31 December 2010	19,953	1,142	21,095

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2010

14. ACQUISITION OF SUBSIDIARIES

On 11 September 2009, Rich Pearl Limited ("Rich Pearl"), a wholly owned subsidiary of the Company acquired the entire issued share capital of Best Max Enterprises Limited ("Best Max"), which shares 0.04% of the rolling turnover generated by Lucky Star Entretenimento Sociedade Unipessoal Limitada at Level 3 at the Starworld Hotel in Macau.

The consideration of approximately HK\$57,720,000 for this acquisition was paid in cash. The amount of excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost arising as a result of the acquisition was approximately HK\$40,738,000.

	Acquiree's carrying amount (Unaudited) <i>HK\$'000</i>	Fair value adjustment (Unaudited) <i>HK\$'000</i>	Fair value (Unaudited) <i>HK\$'000</i>
Net assets acquired:			
Right in sharing of profit streams	–	91,300	91,300
Trade and other receivables	7,168	–	7,168
Other payables	(10)	–	(10)
100% equity interest of Best Max	<u>7,158</u>	<u>91,300</u>	98,458
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost			<u>(40,738)</u>
Total consideration paid			<u>57,720</u>
			<i>HK\$'000</i> (Unaudited)
Total consideration satisfied by:			
Cash consideration			7,708
Deposits for acquisition of a subsidiary			50,000
Related expense paid on acquisition			12
			<u>57,720</u>

The subsidiary acquired during the six months ended 31 December 2009 did not contribute significantly to the Group's revenue and results in that period.

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2010

15. CONTINGENT LIABILITIES

(i) Contingent liability in respect of legal claim for office rental

On 1 September 2004, a writ of summons and statement of claim was made by The Center (49) Limited against the Company in respect of the office previously rented by the Group. The claim is for a sum of approximately HK\$3.3 million together with interest and cost. In the opinion of the Company's directors, the amount claimed is unreasonable. The Group would vigorously contest against such claim. After obtaining legal advice, a provision of approximately HK\$1.6 million has been made in the financial statements for the year ended 30 June 2004. During the six months ended 31 December 2010 and year ended 30 June 2010, there has been no significant progress. At the date of approval of these financial statements, the case is still pending for hearing.

(ii) Contingent liability in respect of legal claim for passenger's injury in the cruise ship

On 12 January 2010, the Company received a notice that it is being sued by a passenger on the Group's cruise ship in respect of a personal injury purported to have been suffered during his journey in the Group's cruise ship. If the Company is found to be liable, the total expected monetary compensation may amount to approximately HK\$3.6 million. The Group leased its cruise ship to the tenant in accordance with the relevant tenancy agreement whereby the tenant operated the ship. The Company denied any liability in respect of the injury and, based on legal advice, the directors do not believe it probable that the court will find against the Company. No provision has therefore been made in respect of this claim during the six months ended 31 December 2010 and year ended 30 June 2010.

16. COMMITMENTS

At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases in respect of the properties are payable as follows:

	31 December 2010 (Unaudited) HK\$'000	30 June 2010 (Audited) HK\$'000
Within 1 year	448	400
After one year but within 5 years	864	1,152
	1,312	1,552

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2010

17. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, during the period, the Group had entered into transactions with related parties which, in the opinion of the directors, were carried out a normal commercial terms and in the ordinary course of the Group's business, as shown below.

Transactions with key managements personnel

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors, is as follows:

	Six months ended	
	31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short-term employee benefits	1,128	1,122
Post-employment benefits	29	24
	1,157	1,146

In the opinion of the Company's directors, the related party transactions mentioned above were conducted on normal commercial terms and in the ordinary course of the Group's business.

18. NON-ADJUSTING POST BALANCE SHEET EVENTS

On 28 January 2011, the Company entered into a conditional sale and purchase agreement with Mr. Robert Buron and Mrs. June Buron (collectively the "Vendors") pursuant to which the Vendors have conditionally agreed to sell and the Company has conditionally agreed to purchase 25% of the entire issued share capital of RJB Recycling Environment Orleans, a company incorporated in the Republic of France with limited liability under the laws of France at a cash consideration of EUR2,500,000 (equivalent to approximately HK\$26,475,000).

Upon Completion, RJB Recycling Environment Orleans will become an associate of the Group. Up to the date of this interim report, the acquisition was not completed.