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## NEPTUNE GROUP LIMITED

### 海王國際集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00070)

#### RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2016

The Board of Directors (the “Board”) of Neptune Group Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 30 June 2016 together with the comparative figures as follows:

#### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June

|  | Note | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|--|------|------------------|------------------|
| Revenue  | 3    | 278,651          | 473,558          |
| Other income   | 4    | 8,709            | 4,445            |
| Other net loss   | 5    | (39,602)         | (248,491)        |
| Impairment loss of trade receivables   |      | (62,997)         | (344,289)        |
| Impairment loss of intangible assets   |      | (450,870)        | (875,222)        |
| Amortisation of intangible assets  |      | (205,416)        | –                |
| General and administrative expenses  |      | (11,317)         | (6,194)          |
| <b>Loss from operation</b>   |      | <b>(482,842)</b> | <b>(996,193)</b> |
| Share of profit/(loss) of an associate   |      | 16,650           | (1,879)          |
| Finance costs  | 6(a) | (507)            | (524)            |
| <b>Loss before taxation</b>  | 6    | <b>(466,699)</b> | <b>(998,596)</b> |
| Income tax   | 7    | –                | –                |
| <b>Loss for the year</b>   |      | <b>(466,699)</b> | <b>(998,596)</b> |
| <i>Other comprehensive income for the year (net of nil tax and reclassification adjustments)</i> |      |                  |                  |
| Items that may be reclassified subsequently to profit or loss:                                   |      |                  |                  |
| Change in fair value of available-for-sale investments   |      | (39,672)         | (209,852)        |
| Impairment loss on available-for-sale investments  |      | 39,672           | 209,852          |
|  |      | –                | –                |
| <b>Loss and total comprehensive loss for the year</b>  |      | <b>(466,699)</b> | <b>(998,596)</b> |
| <b>Loss for the year attributable to</b>   |      |                  |                  |
| – Owners of the Company  |      | (202,108)        | (828,012)        |
| – Non-controlling interests  |      | (264,591)        | (170,584)        |
|  |      | <b>(466,699)</b> | <b>(998,596)</b> |
| <b>Total comprehensive loss attributable to</b>  |      |                  |                  |
| – Owners of the Company  |      | (202,108)        | (828,012)        |
| – Non-controlling interests  |      | (264,591)        | (170,584)        |
|  |      | <b>(466,699)</b> | <b>(998,596)</b> |
|  |      | HK\$             | HK\$             |
|  |      |                  | (Restated)       |
| <b>Loss per share</b>  | 8    |                  |                  |
| – Basic and diluted  |      | <b>(0.38)</b>    | <b>(1.55)</b>    |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June

|   | Note | 2016     |                  | 2015     |                  |
|---|------|----------|------------------|----------|------------------|
|   |      | HK\$'000 | HK\$'000         | HK\$'000 | HK\$'000         |
| <b>Non-current assets</b>                               |      |          |                  |          |                  |
| Property, plant and equipment                           |      |          | 403              |          | 643              |
| Investment property                                     | 10   |          | 60,000           |          | 59,200           |
| Intangible assets                                       | 11   |          | 571,285          |          | 1,227,571        |
| Goodwill  |      |          | –                |          | –                |
| Interest in an associate                                |      |          | 73,100           |          | 56,205           |
| Available-for-sale investments                          |      |          | –                |          | 39,672           |
|   |      |          | <u>704,788</u>   |          | <u>1,383,291</u> |
| <b>Current assets</b>                                   |      |          |                  |          |                  |
| Derivative financial instruments                        |      |          | –                |          | 67               |
| Trade and other receivables                             | 12   |          | 625,340          |          | 406,080          |
| Amount due from an associate                            |      |          | –                |          | 233              |
| Cash and cash equivalents                               |      |          | 148,562          |          | 58,207           |
|   |      |          | <u>773,902</u>   |          | <u>464,587</u>   |
| <b>Less: Current liabilities</b>                        |      |          |                  |          |                  |
| Other payables  |      |          | 10,590           |          | 10,030           |
| Bank borrowing, secured                                 |      |          | 16,448           |          | 18,817           |
|   |      |          | <u>27,038</u>    |          | <u>28,847</u>    |
| <b>Net current assets</b>                               |      |          | <u>746,864</u>   |          | <u>435,740</u>   |
| <b>Net assets</b>                                       |      |          | <u>1,451,652</u> |          | <u>1,819,031</u> |
| <b>Capital and reserves</b>                             |      |          |                  |          |                  |
| Share capital   |      |          | 1,171,921        |          | 1,077,853        |
| Other reserves  |      |          | (109,802)        |          | 87,054           |
| <b>Equity attributable to owners<br/>of the Company</b> |      |          | <u>1,062,119</u> |          | <u>1,164,907</u> |
| <b>Non-controlling interests</b>                        |      |          | <u>389,533</u>   |          | <u>654,124</u>   |
| <b>Total equity</b>                                     |      |          | <u>1,451,652</u> |          | <u>1,819,031</u> |

## 1. BASIS OF PREPARATION

### (i) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (ii) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 30 June 2016 comprise the Company and its subsidiaries (including a structured entity) (together referred to as the “Group”) and the Group’s interest in an associate.

#### (i) *Basis of measurement*

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

- investment property;
- available-for-sale investments; and
- derivative financial instruments.

#### (ii) *Functional and presentation currency*

Items included in the financial statements of each entities in the Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in Hong Kong dollars (“presentation currency”), which is the Company’s functional and presentation currency. All financial information presented in Hong Kong dollars has been rounded to the nearest thousand, except unless otherwise stated.

(iii) *Use of estimates and judgement*

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## 2. CHANGES IN ACCOUNTING POLICIES

There are no new standards or amendments to HKFRSs issued by HKICPA that are first effective for the current accounting period of the Group. The Group has not applied any new standard or amendment to HKFRSs that is not yet effective for the current accounting period.

## 3. REVENUE AND SEGMENT REPORTING

The principal activity of the Company and its subsidiaries is introducing customers to respective casino's VIP rooms in Macau and receiving the profit streams from junket businesses at respective casino's VIP rooms in Macau (the "Gaming and Entertainment Business").

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's CODM, being the directors of the Company, for the purposes of resource allocation and performance assessment, the CODM reviewed the Group's result as a whole which was generated solely from the Gaming and Entertainment Business and the Group has identified the Gaming and Entertainment Business as the Group's sole operating reportable segment. The Group's results and financial position are reviewed as a whole. Accordingly, no segment analysis is presented other than the entity wide disclosure.

### (a) Geographical information

The Group's business operates in two principal geographical areas – (i) Hong Kong and (ii) Macau (place of domicile). In presenting information on the basis of geographical locations, revenue is based on the location of customers. The Group's non-current assets include property, plant and equipment, investment property, intangible assets, goodwill and interest in an associate. The geographical locations of property, plant and equipment and investment property are based on the physical location of the asset under consideration. In the case of intangible assets and goodwill, it is based on the location of the operation to which they are allocated. In the case of interest in an associate, it is the location of operation of the associate.

| For the year ended 30 June      | Hong Kong        |                  | Macau            |                  |
|---------------------------------|------------------|------------------|------------------|------------------|
|                                 | 2016<br>HK\$'000 | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
| Revenue from external customers | <u>–</u>         | <u>–</u>         | <u>278,651</u>   | <u>473,558</u>   |
| Non-current assets              | <u>60,403</u>    | <u>59,843</u>    | <u>644,140</u>   | <u>1,283,776</u> |

#### 4. OTHER INCOME

An analysis of the Group's other income is as follows:

| <b>For the year ended 30 June</b>  | <b>2016</b><br><b>HK\$'000</b> | <b>2015</b><br><b>HK\$'000</b> |
|--|--------------------------------|--------------------------------|
| Interest income on financial assets not at fair value through profit or loss:            |                                |                                |
| – Bank interest income   | 512                            | 468                            |
| Interest income on short-term loan receivables:  |                                |                                |
| – non-controlling interests of subsidiaries of the Company                               | 6,435                          | –                              |
| – other  | 82                             | –                              |
| Compensation from the junket promoter for shortfall in guaranteed profit ( <i>Note</i> ) | –                              | 2,811                          |
| Gross rental income  | 1,680                          | 1,166                          |
|  | <u>8,709</u>                   | <u>4,445</u>                   |

*Note:* Pursuant to the profit assignment agreements and the supplementary profit assignment agreements in respect of the acquisition of Essence Gold, the Group is entitled to receive compensations from junket promoter, for Essence Gold's failure to achieving a predetermined guaranteed profit for the period up to 30 September 2014.

During the year ended 30 June 2015, profits generated from Essence Gold did not meet the guaranteed profit under the relevant profit assignment agreements, and accordingly the Group was entitled to receive the compensation from the junket promoter for shortfall in guaranteed profits of Essence Gold.

#### 5. OTHER NET LOSS

An analysis of the Group's other net loss is as follows:

| <b>For the year ended 30 June</b>                      | <b>2016</b><br><b>HK\$'000</b> | <b>2015</b><br><b>HK\$'000</b> |
|--|--------------------------------|--------------------------------|
| Gain on disposal of a subsidiary                       | –                              | 306                            |
| Fair value changes on derivative financial instruments | (67)                           | (33,136)                       |
| Fair value change on securities held for trading       | –                              | 2                              |
| Fair value change on investment property               | 137                            | 60                             |
| Impairment loss of other receivables                   | –                              | (5,871)                        |
| Impairment loss of available-for-sale investments      | (39,672)                       | (209,852)                      |
|  | <u>(39,602)</u>                | <u>(248,491)</u>               |

## 6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

### (a) Finance costs

| <b>For the year ended 30 June</b>   | <b>2016</b><br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Interest expense on financial liabilities not at fair value through profit or loss: |                                |                         |
| – Interest on bank borrowing  | <u>507</u>                     | <u>524</u>              |

### (b) Other items

| <b>For the year ended 30 June</b>  | <b>2016</b><br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Depreciation of property, plant and equipment  | 240                            | 322                     |
| Amortisation of intangible assets  | 205,416                        | –                       |
| Operating lease charges in respect of land and buildings:  |                                |                         |
| – Minimum lease payment  | 657                            | 710                     |
| Gross rental income from an investment property less direct outgoings of HK\$212,000 (2015: HK\$194,000) | <u>1,468</u>                   | <u>972</u>              |

## 7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### (i) Income tax in the consolidated statement of profit or loss and other comprehensive income

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to tax in the British Virgin Islands.

No provision for Hong Kong Profits Tax has been made as the Group's entities did not have estimated assessable profits subject to tax in Hong Kong during the years ended 30 June 2016 and 2015.

The Group's entities operating in Macau receiving profit streams from gaming and entertainment related business are not subject to Macau Complimentary tax because the gaming revenue is received net of taxes collected by the Macau SAR paid directly by the casino operators on a monthly basis. No provision for Macau Complimentary tax has been made.

### (ii) Deferred tax assets and liabilities not recognised

At 30 June 2016, the Group has unused tax losses of approximately HK\$18,659,000 (2015: HK\$14,945,000). No deferred tax asset has been recognised in respect of such tax losses as at 30 June 2016 due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At 30 June 2016 and 2015, the Group did not have any other material unprovided deferred tax assets and liabilities.

## 8. LOSS PER SHARE

### Basic loss per share

The calculation of basic loss per share is based on the consolidated loss attributable to owners of the Company of approximately HK\$202,108,000 (2015: HK\$828,012,000) and the weighted average of 536,774,000 (2015 (restated): 535,484,000) ordinary shares in issue during the year. The weighted average number of ordinary shares for the purpose of calculating loss per share for the year ended 30 June 2015 has been restated to reflect the effects of (i) the consolidation of ten shares into one share of the Company with effect in May 2016; and (ii) the open offer in June 2016.

### Diluted loss per share

Diluted loss per share for the year ended 30 June 2016 was the same as the basic loss per share because the exercise of the Company's share options would result in a decrease in loss per share for that year.

Diluted loss per share for the year ended 30 June 2015 was the same as the basic loss per share because the exercise prices of the Company's outstanding share options were higher than the average market price of the Company's shares during the year.

## 9. DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 30 June 2016 (2015: Nil).

## 10. INVESTMENT PROPERTY

|   | <i>HK\$'000</i>      |
|---|----------------------|
| <b>At fair value</b>                    |                      |
| At 1 July 2014                          | 59,140               |
| Fair value adjustment ( <i>Note 5</i> ) | <u>60</u>            |
| At 30 June 2015 and 1 July 2015         | 59,200               |
| Additions to investment property        | 663                  |
| Fair value adjustment ( <i>Note 5</i> ) | <u>137</u>           |
| At 30 June 2016                         | <u><u>60,000</u></u> |

The investment property is located in Hong Kong under medium lease.

## 11. INTANGIBLE ASSETS

|  | <b>Rights in sharing<br/>of profit streams</b><br><i>HK\$'000</i> |
|--|---|
| <b>Cost:</b>                                 |   |
| At 1 July 2014, 30 June 2015, 1 July 2015    | 2,918,693   |
| Write-off ( <i>note (ii)</i> )               | <u>(168,900)</u>  |
| At 30 June 2016                              | <u>2,749,793</u>  |
| <b>Accumulated amortisation (note (i)):</b>  |   |
| At 1 July 2014, 30 June 2015 and 1 July 2015 | –   |
| Charge for the year                          | <u>205,416</u>  |
| At 30 June 2016                              | <u>205,416</u>  |
| <b>Accumulated impairment losses:</b>        |   |
| At 1 July 2014                               | 815,900   |
| Impairment loss recognised during the year   | <u>875,222</u>  |
| At 30 June 2015 and 1 July 2015              | 1,691,122   |
| Write-off ( <i>note (ii)</i> )               | <u>(168,900)</u>  |
| Impairment loss recognised during the year   | <u>450,870</u>  |
| At 30 June 2016                              | <u>1,973,092</u>  |
| <b>Carrying amount:</b>                      |   |
| At 30 June 2016                              | <u><u>571,285</u></u>   |
| At 30 June 2015                              | <u><u>1,227,571</u></u>   |

### Notes:

- (i) Prior to 1 July 2015, the directors considered that the useful life of the Group's intangible assets which represented the rights in sharing of profit streams from junket businesses at the respective casinos' VIP rooms in Macau was indefinite because the directors expected that the intangible assets could contribute cash flows to the Group indefinitely.

From time to time, the directors reviewed the useful life of intangible assets. Since the termination of the Lucky Star Profits Agreements on 1 July 2015, the directors reassessed the useful life of the remaining profit sharing agreements. When assessing the useful life of the intangible assets, the directors have taken into account the prolonged difficult business environment of the gaming industry, particularly the VIP room operations, the shifting of focus to tourists and recreational players in the gaming industry in Macau as well as the uncertainty of the outcome of the renewal of the relevant gaming concession contracts by the Macau government. After the assessment, the directors considered that the useful life of the intangible assets is estimated to be in the range of 5 to 7 years. As such, an amortisation of intangible assets was provided over the estimated useful life of 5 to 7 years starting from the beginning of the current year.

As a result of this change in accounting estimate on the useful life of the intangible assets in the current year, the amortisation of intangible assets has increased by approximately HK\$205,416,000 from nil to HK\$205,416,000 and the impairment loss on intangible assets has decreased by approximately HK\$205,416,000 from HK\$701,286,000 to HK\$450,870,000 for the year ended 30 June 2016.

- (ii) Lucky Star Profit Agreements was terminated with effect on 1 July 2015 and accordingly, impairment loss of intangible assets of approximately HK\$168,900,000 recognised in previous years, was write-off against the corresponding cost during the year ended 30 June 2016.



The intangible assets represent the rights in sharing of profit streams from junket businesses at respective casinos' VIP rooms in Macau, and are related to the Gaming and Entertainment Business.

The recoverable amount of the intangible assets with definite useful life is determined based on value-in-use calculations by reference to the valuation report issued by Ascent Partners Valuation Services Limited, an independent qualified professional valuer.

## 12. TRADE AND OTHER RECEIVABLES

Included in the Group's trade and other receivables are trade receivables with the following aging analysis as of the end of each reporting period:

| <b>As at 30 June</b>                       | <b>2016</b><br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| 0 – 30 days                                | <b>26,789</b>                  | 23,525                  |
| 31 – 60 days                               | <b>21,510</b>                  | 32,741                  |
| 61 – 90 days                               | <b>21,317</b>                  | 28,365                  |
| 91 – 180 days                              | <b>76,080</b>                  | 101,958                 |
| 181 – 365 days                             | <b>132,955</b>                 | 262,803                 |
| Over 365 days                              | <b>653,819</b>                 | 207,427                 |
|  | <b>932,470</b>                 | 656,819                 |
| Less: Impairment loss on trade receivables | <b>(407,286)</b>               | (344,289)               |
|  | <b>525,184</b>                 | 312,530                 |

The Group's trading terms with its customers are mainly on credit. The credit terms are generally for a period of 30 to 60 days. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management.

In September 2016, the Group entered into various agreements with trade debtors pursuant to which (i) the trade debtors agreed to settle the overdue trade receivables of HK\$517,470,000 by monthly installments commencing from October 2016; (ii) the trade debtors and owners of the trade debtors charged all the undertaking, property, assets and rights of the gaming promoters to the Group; and (iii) the owners of the trade debtors guaranteed the full repayments of the outstanding amounts by the trade debtors.

Subsequent to 30 June 2016 and up to the date of approval of these financial statements, the trade debtors made a total payments of HK\$373,456,000 (including three monthly installments for October, November and December 2016) to the Group. In November 2016, the trade debtors procured several independent third parties to charge their properties located in Macau to the Group as securities for repayment of the overdue trade receivables. The market value of these properties as at 31 October 2016 were amounted to HK\$151,728,000. Together with the amount of HK\$373,456,000 already settled subsequent to 30 June 2016, the directors considered that only part of the outstanding trade receivables amounting HK\$525,184,000 would be recoverable in full. Therefore, an additional impairment loss of HK\$62,997,000 was made in the year ended 30 June 2016.

At 30 June 2016, trade receivables and other receivables amounting to approximately HK\$407,286,000 (2015: HK\$344,289,000) and HK\$6,584,000 (2015: HK\$6,584,000) were individually determined to be impaired. The individually impaired receivables were outstanding for over 30 days at the end of the reporting period or were due from customers with financial difficulties. Accordingly, specific allowances for doubtful debts of trade receivables and other receivables of approximately HK\$62,997,000 (2015: HK\$344,289,000) and nil (2015: HK\$5,871,000), respectively, were recognised during the year ended 30 June 2016.

### **13. EVENT AFTER THE END OF THE REPORTING PERIOD**

The following significant events took place subsequent to 30 June 2016:

**(i) Settlement of trade receivables**

Up to the date of approval of these consolidated financial statements, the customers settled trade receivables amounting to HK\$373,456,000.

**(ii) Settlement plan and collaterals from customers**

The Group entered into various agreements with trade debtors pursuant to which (i) the trade debtors agreed to settle the overdue trade receivables of HK\$517,470,000 by monthly installments commencing from October 2016; (ii) the trade debtors and owners of the trade debtors charged all the undertaking, property, assets and rights of the gaming promoters to the Group; and (iii) the owners of the trade debtors guaranteed the full repayments of the outstanding amounts by the trade debtors.

In addition, the trade debtors procured several independent third parties to charge their properties located in Macau to the Group as securities for repayment of the overdue trade receivables. The market value of these properties as at 31 October 2016 were amounted to HK\$151,728,000.

**(iii) Personal guarantee provided by an independent third party**

Up to the date of approval of these consolidated financial statements, an independent third party provided a personal guarantee on the short-term loans of the Group amounting to HK\$92,147,000.

## **AUDIT OPINION**

The Company's auditor has issued the qualified opinion on the Group's consolidated financial statements for the year ended 30 June 2016, an extract of which is as follows:

### **Basis for Qualified Opinion**

As disclosed in the consolidated financial statements, the net assets of the associate mainly comprised of intangible assets and trade receivables. During the year ended 30 June 2016, the associate did not receive any settlements of the amount due by the junket. Subsequent to the reporting period in October 2016, the junket made a settlement of HK\$20,000,000 and the remaining balance of HK\$234,015,000 remains outstanding. In assessing the recoverable amount of the interest in an associate, the Group engaged an independent professional valuer to estimate the fair value of the intangible assets held by the associate based on a discounted estimated future cash flows basis. In valuing the intangible assets, one of the major assumptions used is the timing of cash flow settlement from the junket. Given that the junket did not make any settlements during the year ended 30 June 2016 and other than the aforesaid HK\$20,000,000, no subsequent settlements were made up to the date of approval of these consolidated financial statements, we were unable to obtain sufficient appropriate evidence to assess the assumptions made by the directors in the valuation of the intangible assets as well as the recoverable amount of the associate's trade receivables. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the valuation of the interest in an associate of HK\$73,100,000 as included in the consolidated statement of financial position as at 30 June 2016 and the Group's share of profit of an associate of HK\$16,650,000 as included in the consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2016. Any adjustments that might have been found to be necessary in respect of the above would have a consequential effect on the net assets of the Group as at 30 June 2016 and of its financial performance and cash flows for the year then ended and the related disclosures in the consolidated financial statements.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the financial position of the Group as at 30 June 2016, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The Board announced that the audited net loss of the Group for the year ended 30 June 2016 amounted to approximately HK\$466.7 million (2015: loss of HK\$998.6 million).

For the financial year ended 30 June 2016, the Group's gaming revenue fell by 41.2% to approximately HK\$278.7 million. Our revenue was cohesive to the performance of our beleaguered counter parties who confronted head to head competition for Chinese players like all others. Last year, many policies have been implemented that have discernible impact on gaming demand or spending, such as the pressing ahead of the anticorruption drive, slowdown in China economy which has already been buffeted by the global slowdown, government's policy to curb Chinese bank card withdrawal limits per transaction and on daily limits, limitation of visa entry, etc. Slapped by all these government monitoring measures on inordinate capital outflow from China, Macau gaming promoters and concessionaries had experienced overall downfall in revenue for 26 consecutive months commencing from mid of 2014 up to July 2016. It is only until recent months that the overall gross gaming revenue has resumed positive year-on-year annual growth from the low figures recorded in 2015.

The net loss attributable to owners of the Company for the year was approximately HK\$202.1 million or loss per share of HK\$0.38, or compared with last year's net loss attribute to owner of the Company of approximately HK\$828.0 million or loss per share of HK\$1.55 (restated).

The following is the summarised information relating to our VIP junkets rooms activities.

|                              | <b>For the year ended</b>                               |             |               |
|------------------------------|---|-------------|---------------|
|                              | <b>2016</b>   | <b>2015</b> | <b>Change</b> |
|                              | <i>(HK\$ in millions, except percentage and points)</i> |             |               |
| I) The Venetian Macau        |   |             |               |
| Venetian Neptune GD VIP Club | <b>115.1</b>  | 143.1       | -19.6%        |
| II) Sands Macau              |   |             |               |
| Sands Neptune GD VIP Club    | <b>72.5</b>   | 108.2       | -33.0%        |
| III) Grand Lisboa            |   |             |               |
| Neptune GD 31 Sky Club       | <b>91.1</b>   | 203.4       | -55.2%        |

Our EBITDA (see note 1) was negative for the year ended 30 June 2016 at approximately HK\$260.5 million, showing a reduction of loss of approximately HK\$737.3 million, or 73.9% compared to last year's EBITDA of a loss of approximately HK\$997.8 million.

The reduced loss as mentioned above as compared to last year was the combined result of mainly the following reasons:

- (i) There is a stark decline of almost HK\$200 million in revenue due to the sluggish gaming activities in VIP segment. On positive side, during the year, the Group has recognised interest income derived from three loan agreements with three non-controlling shareholders for their business use. This produced a short term loan interest income of HK\$6.4 million in addition to the source of other income. However, there was no more other revenue contributed by the compensation from the shortfall in guarantee profit from Essence Gold this year (2015: HK\$2.8 million).
- (ii) The impairment loss of available-for-sale investments this year represented the impairment on the residual value of HK\$39.7 million, compared to the impairment loss of HK\$209.9 million last year.
- (iii) This year, the impairment of trade receivable was HK\$159 million but offset by some reversal adjustments on fair value basis that reduced the current year impairment by HK\$96 million. The fair value adjustment in 2015 was HK\$344.3 million.
- (iv) Also, the negative effect arising from fair value changes on derivative financial instruments, the call options available to the group eligible for further acquisition of 70% interest in Base Move, 80% interest in Essence Gold was largely reduced by 33 million this year with the loss on fair value changes on financial derivative investments recorded as HK\$67,000 this year, compared to a loss of HK\$33.1 million last year. In addition, there was no more impairment on other receivables which amounted to HK\$5.9 million last year.
- (v) This year, the EBITDA was subject to the impact of change in accounting estimate after impairment test on intangible assets when our management have decided it is appropriate to adopt change in the useful life of Group's intangible assets from indefinite to definite term. Overseeing the prolonged difficult business environment in particular to VIP room gaming operation, the swift to mass market looking for tourists and recreational players as well as the uncertainty of the outcome of the renewal of relevant gaming concession contracts by the Macau government were the main reasons for the change of accounting estimate.

After assessment, the directors considered that the useful life of the intangible assets is estimated to be in the range of 5 to 7 years. As such, this has resulted in the amortisation of intangible assets of approximately HK\$205.4 million (2015: Nil), on the other hand, the impairment loss on intangible assets has decreased by HK\$424.3 million to HK\$450.9 million as compare to HK\$875.2 million in 2015.

- (vi) Our spending on general and administrative for this year was approximately HK\$6.1 million close to flat as compared with last year, except that we captured a notional share based transaction related to the share options granted to executive director in mid of this year. The fair value of these options was about HK\$5.2 million.

*Note 1:* EBITDA refers to earnings before interest expenses and other finance costs, tax, depreciation and amortisation.

## **CAPITAL STRUCTURE**

Effective on 23 May 2016, ten ordinary shares of the Company were consolidated to one ordinary share. During the year, an open offer of 230,812,225 offer shares at subscription price of HK\$0.42 per each on the basis of one offer share for every two shares was carried out. The open offer became unconditional on 20 June 2016. As at 30 June 2016, the total issued share capital of the Company was HK\$692,436,675 ordinary shares.

## **LIQUIDITY, FINANCIAL RESOURCES AND FUNDING**

As at 30 June 2016, the Group had outstanding bank borrowing of approximately HK\$16.4 million, a decrease of approximately HK\$2.4 million, compared to the outstanding bank borrowing of approximately HK\$18.8 million as at 30 June 2015. The total cash and bank balance was approximately HK\$148.6 million as compared to approximately HK\$58.2 million as at 30 June 2015.

The Group had net current assets of approximately HK\$746.9 million as at 30 June 2016 (2015: HK\$435.7 million).

The total equity attributable to owners of the Company as at 30 June 2016 amounted to approximately HK\$1,062.1 million (2015: HK\$1,164.9 million). The gearing ratio, calculated on the basis of total debt (which represents the outstanding bank borrowing of the Group) over total equity attributable to owners of the Company as at 30 June 2016, was approximately 1.55% (2015: 1.62%).

As at 30 June 2016, the total liabilities amounted to approximately HK\$27.0 million (2015: HK\$28.8 million), comprising of bank borrowing of approximately HK\$16.4 million and other payables of approximately HK\$10.6 million.

## **PLEDGE OF GROUP'S ASSETS**

As at 30 June 2016, an investment property of the Group with fair value of approximately HK\$60 million (2015: HK\$59.2 million) was pledged to secure the Group's bank facilities of approximately HK\$16.4 million (2015: 18.8 million).

## **CONTINGENT LIABILITIES**

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 year ended 30 June 2016, there has been no significant progress.

## **BUSINESS OVERVIEW**

After several years of downturn, the gaming market conditions in Macau are generally noted to be improving with its gross gaming revenue not retreating in recent months. We may have reached the bottom of the downward spiral. Despite having been benefited from the booming VIP market for so many years in the past, however, there is no guarantee of a successful rebound or return to our profitability soon. Our table count has suffered as a result of government adjustments to overall allocation to the industry. Operators have been forced to reduce VIP table numbers and we are no exception. Set out below is a capsule summary of present table inventory in our portfolio. Our allocation of the VIP tables is currently as follows: 14 tables in The Venetian, 10 tables in Sands Macao, 13 tables in Galaxy, 8 tables in Grand Lisboa and 10 tables in City of Dreams. This totals to 55 tables, representing a reduction of 7 tables throughout the year.

Delving into the current VIP trends in Macau, the norm has been unfortunate as presented above. Complete closure of VIP rooms happened more frequently. No group is seen immuned to this downturn, including us, and some other rivals of ours are even closing down. Two years ago, ten VIP operators controlled 85% of the market, now just three. New government regulations directed at start up VIP ventures are being interpreted as compliance based. These new regulations and capital needs make new VIP entries problematic that is synonymous as a niche for the existing operators. For now, we see the VIP contribution to yearly gross gaming revenue falling under 50% from a high of almost 80% as recorded in prior years.

Moving forward, as previously mentioned, new strategic planning for the overall Group's operation is taking place. The Company has applied and received permission by Hong Kong regulators to activate a money lending operation. The Group has begun to administer loans. New and experienced staff has been guiding the Company through the startup phase. Initial indicators are positive as the market need for this market niche has been verified. We expect to continue and expand this business as a supplement to lost VIP volumes.

### **Corporate Governance and other information**

The Company strives to attain and maintain high standards of corporate governance best suited to the needs and interests of the Group as it believes that effective corporate governance practices are fundamental to safeguarding interests of shareholders and other stakeholders and enhancing shareholder value. An effective system of corporate governance requires that the Board approves strategic direction, monitors performance to exercise our stewardship responsibilities with due skill and care.

## **Compliance with the Corporate Governance Code**

The Company has complied throughout the year ended 30 June 2016 with all code provisions of the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except that one executive director was unable to attend the Board meeting held on 29 February 2016 for approving the interim results of the Company for the six months ended 31 December 2015, due to other business engagement.

## **Compliance with the Model Code for Securities Transactions by Directors of the Company**

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as the code of conduct regulating directors’ dealings in securities of the Company. In response to specific enquiries made, all directors of the Company have confirmed compliance with such code in their securities dealings throughout the accounting period covered by this report.

## **Audit Committee Review**

The audit committee has reviewed the accounting policies adopted by the Group and the audited consolidated financial statement for the year ended 30 June 2016 and was of the opinion that the preparation of such final results compiled with the applicable accounting standards and requirements that adequate disclosure have been made. All of the audit committee members are independent non-executive directors, with Mr. Cheung Yat Hung Alton (Chairman of the audit Committee) and Mr. Yue Fu Wing possessing the appropriate professional qualification and accounting and related financial management expertise and Mr. Chow Chung Lam Louis.

The Group’s annual results for the year ended 30 June 2016 has been reviewed by the audit committee. It has also discussed and review accounting, internal controls and financial reporting matters of the Group.

## **Remuneration Committee**

The remuneration committee comprises two independent non-executive directors, namely Mr. Cheung Yat Hung (Chairman), Mr. Yue Fu Wing and one executive director Mr. Nicholas J. Niglio.

## **Nomination Committee**

The Company has established a nomination committee. The Board is tasked with ensuring that it has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Group and that appropriate individuals with the relevant expertise and leadership qualities are appointed to the Board to complement the capabilities of existing directors of the Company.



## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES**

During the year, neither the Company nor any its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This announcement of the Group's audited annual results for the year ended 30 June 2016 is published on the website of the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) and the Company's website (<http://www.neptunegroup.com.hk>).

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the shares of the Company on The Stock Exchange of Hong Kong Limited has been suspended with effect since 9:00 a.m. on 3 October 2016 pending the release of this announcement. An application has been made by the Company to The Stock Exchange of Hong Kong Limited for the resumption of trading in the Company's shares with effect from 9:00 a.m. on 20 December 2016.

By Order of the Board of  
**Neptune Group Limited**  
**Danny Xuda Huang**  
*Chairman*

Hong Kong, 19 December 2016

*As at the date of this announcement the Board comprises the executive directors Mr. Danny Xuda Huang (Chairman), Mr. Nicholas J. Niglio, and Mr. Chan Shiu Kwong Stephen and Mr. Lin Chuen Chow, Andy; the independent non-executive directors are Mr. Cheung Yat Hung, Alton, Mr. Yue Fu Wing and Mr. Chow Chung Lam Louis.*