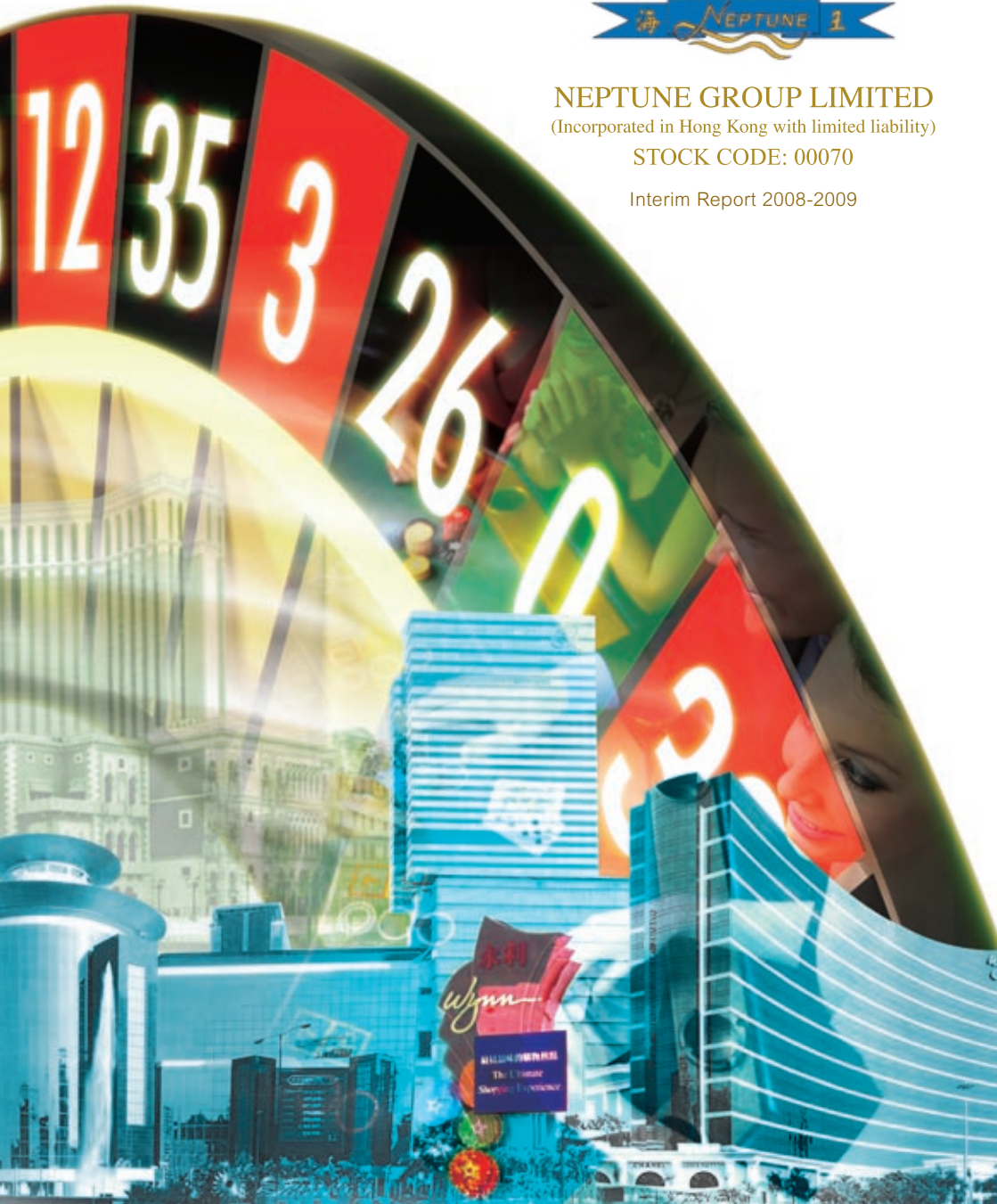




NEPTUNE GROUP LIMITED  
(Incorporated in Hong Kong with limited liability)

STOCK CODE: 00070

Interim Report 2008-2009



# Neptune Group Limited

## CONTENTS

	<i>Pages</i>
Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	4-6
Corporate Governance Report	7-8
Additional Information Required by the Listing Rules	9-11
Financial Information	
Condensed Consolidated Income Statement	12
Condensed Consolidated Balance Sheet	13-14
Condensed Consolidated Statement of Changes in Equity	15
Condensed Consolidated Cash Flow Statement	16
Notes to the Condensed Financial Statements	17-30

# 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

Mr. Lau Kwok Keung

(Retired on 22 December 2008)

#### ***Independent non-executive directors:***

Mr. Cheung Yat Hung, Alton

Mr. Yue Fu Wing

Mr. Wong Tat Tung

### **COMPANY SECRETARY**

Mr. Lau Kwok Hung

### **AUDIT COMMITTEE**

Mr. Cheung Yat Hung, Alton

Mr. Yue Fu Wing

Mr. Wong Tat Tung

### **AUDITORS**

CCIF CPA Limited

20th Floor, Sunning Plaza,

10 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 1807, 18/F West Tower,

Shun Tak Centre,

168-200 Connaught Road Central,

Hong Kong

### **E-MAIL**

[enquiry@neptune.com.hk](mailto:enquiry@neptune.com.hk)

### **STOCK CODE**

00070

## CHAIRMAN'S STATEMENT

The Company managed, under extraordinary global economic pressures, to perform at a particularly satisfactory level. Besides enduring the much publicized contraction of nearly all markets, the Company also withstood regional challenges. To wit, the implementation of a new and comprehensive Visitor Visa Issuance Scheme from China presented additional hurdles to overcome. The Company, operating under a new business model, is exposed to both global and regional downturns. However, management remained flexible during these trying times and "steered" the Company through the troubled waters. We strove to strengthen our alliances with our Macau investments to insure continuity of profits and shareholder value. We believe we have accomplished this. Prudently, management has executed an exclusive 3 years contract with the premier gaming concern in Australia, that being the Tabcorp entity. We believe this revolutionary marketing agreement shall and should drive incremental revenue to our Macau partners. Quite frankly we have established a new benchmark for such partnerships. To be sure we are never fully satisfied; management has not allowed these dire times to sway from its mission of extraordinary performance. We acknowledge our responsibility to our shareholders and our employees to tackle the obstacles head on and commit to the future. We feel confident in our future and the future of the economy in general.

The coming 6 months is expected to show a slight "relief" from the past. The key to this "relief": certain political appointments and transfers at the highest level within the SAR. This expectation will bring new vigor and vision to bear. Ultimately, regional obstacles may be softened and allow the Company to confidently march forward. Expect under these apparent changes we even an aggressive company, one who sees its dominant role in the Macau casino sector and a stepping stone to more success. The groundwork has been laid and the Company is ready. The coming months shall bear to it.

### **Lin Cheuk Fung**

*Chairman of the Board*

Hong Kong, 26 March 2009

# Neptune Group Limited

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS OVERVIEW

The unaudited net loss of the Group for six months ended 31 December 2008 amounted to HK\$318,600,000 (2007: profit HK\$110,758,000). The mark to market valuation on our investment of junket business in Venetian was one of the major causes of dragging down our profit by providing an impairment loss of intangible assets under income approach in amount of HK\$495,400,000 which have offset against all revenue generated during the past six months. Together with the loss on fair value changes on derivative financial instruments in amount of HK\$124,976,000 had been recognised after valuation which have adopted discounted cash flow method and proximity to latest market information.

Stripping out the loss tied to impairment loss of intangible assets and fair value changes on derivative financial instruments, the Group's net profit before impairment and fair value changes on derivative financial instruments and excess of acquiree's identifiable net assets over cost and gain on redemption of convertible notes should be recorded as HK\$281,408,000 (2007: HK\$17,598,000), an increase of HK\$264 million as compared with same period last year.

So throughout the past six months, rolling turnover was recorded from VIP rooms opened in three casinos, including Sands Las Vegas, Galaxy Entertainment's StarWorld and Venetian Macao were steady in line with our estimation. All revenue from rolling turnover were holding up pretty well up to end of December 2008. Sooner or later we expect Macau gaming industry will be back on right track, and the valuation of our investments in intangible will turn leaps and bounds to their original intrinsic value. With a management philosophy that greater risk is not being willing to take a risk, we manage to focus on generating returns in excess of our cost of capital.

### GAMING RELATED BUSINESS

Revenue for the commission from rolling turnover for the year was recorded HK\$262,655,000 (2007: HK\$73,168,000), this figure comprised of sharing of commission income stream from investment in junket business in Venetian based on 0.4% on gross rolling turnover amount to HK\$137,872,000 and commission income stream from investment in junket business operated in Sands Las Vegas amount to HK\$124,783,000 as well. Share of commission HK\$22,068,000 in Galaxy Entertainment of StarWorld was captured in a separate item as share of profit from associated companies.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **GAMING RELATED BUSINESS** *(continued)*

Nonetheless Gaming activities in Macau is facing dwindling demand at this moment but we weather the crisis with full confidence as our investment returns were safeguarded by guarantee profit and won customer loyalty as a result of our awareness to our customers and service differentiation contributed by our staff from all level dedication. Our group's liquidity position remains strong and has sufficient financial resources to satisfy its working capital and its commitment.

The group revenue was bolstered by having a steady income stream spawn up from our investments completed over the past years. We shall focus on this segment as our core business in years ahead through further investments based on our internal resources and external financing stack up in coming years. When our resources will plateau for best opportunity to acquire more profitable business and spot the overall gaming market on recovery, we gear up and spearhead to ride for expand our market share.

### **MANUFACTURING AND TRADING ELECTRICAL EQUIPMENT AND PROVISION OF ELECTRICAL ENGINEERING AND CONTRACTING SERVICES**

Revenue for the manufacturing and the trading of electrical equipment and the provision of electrical engineering and contracting services was recorded approximately HK\$64,144,000 (2007: HK\$68,650,000), slight decrease when compared with same period last year and approximately representing 18.6% (2007: 43%) of the Group's total revenue. Segment result amounted to approximately HK\$8,560,000 (2007: HK\$8,402,000).

### **CRUISE BUSINESS**

Revenue for the leasing of the cruise ship for six months was recorded HK\$18,000,000 (2007: HK\$18,000,000), remain unchanged when compared with same period last year. It accounted for approximately 5.2 % of the Group's total revenue, relatively it's weighing now much less in percentage as compared with same period last year approximately 11.26% of the Group's total revenue. Segment result amounted to approximately HK\$13,745,000 (2007: HK\$13,745,000). Contribution from cruise rental, remain unchanged when compared with same period last year. During the period, oil price was plunged to market low after it skyrocket to the highest price in first half of year 2008 and then remained in low level after that. At the first half of this financial year, we received a steady income from operator, it recorded good business benefiting from its overall cost saving come and lower crude oil price. However, the fallout of many large global financial institutes caused protracted recession, Cruise leasing is also in dismal season, The baleful competition pushing our margin way down to lower level beginning from first quarter of year 2009 that our Group have conceded to reduce our monthly rental under new lease term.

# Neptune Group Limited

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 31 December 2008 (2007: HK\$ Nil).

### LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group had net current assets of HK\$323,850,000 as at 31 December 2008 (30 June 2008: HK\$379,037,000). No bank borrowings were outstanding as at 31 December 2008 (30 June 2008: HK\$867,000). The total equity of the Group as at 31 December 2008 was HK\$1,592,276,000 (30 June 2008: HK\$1,997,490,000). The gearing ratio, calculated on the basis of total liabilities over total shareholders' funds as at 31 December 2008, was approximately 42.1% (30 June 2008: 50%).

The total indebtedness of the Group comprises mainly of convertible notes and promissory notes. As at 31 December 2008, the value of total indebtedness amount to HK\$670,562,000 (30 June 2008: HK\$998,349,000), comprising of HK\$47 million trade payable, HK\$4.5 million tax payable, HK\$39 million deferred tax liabilities and the liability component of the convertible notes of HK\$565 million, representing two convertible notes separately one have redeemable face value of HK\$685,000,000 with carrying amount of HK\$486,009,000 as at 31 December 2008, with a conversion price of HK\$0.3 per share, together with another one having redeemable face value of HK\$111,000,000 with carrying amount HK\$78,698,000 as at 31 December 2008, with a conversion price of HK\$0.3 per shares, All of which are unsecured, with effective interest rate approximately 5% and maturing on 16 March 2018. Taken into account of two promissory notes amount to HK\$30 million issued for acquiring entire share capital of Koppert International Ltd on 1 August 2007 which are unsecured, bearing an effective interest approximately 8%. Up to 31 December 2008, the remaining HK\$15 million was extended to 31 July 2009.

### EMPLOYEES

The Group employs approximately 81 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.

### PLEDGE OF GROUP'S ASSETS

As at 31 December 2008, no leasehold land and buildings in Hong Kong of the Group were pledged to secure the bank facilities (30 June 2008: HK\$ Nil) and fixed deposits of approximately HK\$214,000 (30 June 2008: HK\$214,000) was pledged to secure banking facilities.

## **CORPORATE GOVERNANCE REPORT**

### **CORPORATE GOVERNANCE PRACTICES**

During the six months ended 31 December 2008, 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.

### **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.

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.

### **RESPONSIBILITIES OF THE BOARD**

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.



# Neptune Group Limited

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for securities transactions as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the directors. Following specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the period under review.

## **AUDIT COMMITTEE**

The audit committee comprises three independent non-executive directors, namely Mr. Cheung Yat Hung, Alton, Mr. Yue Fu Wing and Mr. Wong Tat Tung. 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 2008 has been reviewed by the audit committee and agreed to the accounting principles and practices adopted by the Company.

## **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 2008, the interests 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 Futures 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 positions 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.

# Neptune Group Limited

## **DIRECTORS' AND CHIEF EXECUTIVES' 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 employees, 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***

<b>Name of director</b>	<b>Number of ordinary shares held</b>	<b>Percentage of shares held</b>
Mr. Lin Cheuk Fung	2,390,000	0.96%
Mr. Chan Shiu Kwong, Stephen	2,388,000	0.96%
Mr. Lau Kwok Hung	2,388,000	0.96%
Mr. Wan Yau Shing, Ban	3,000,000	1.20%
Mr. Nicholas J. Niglio	2,300,000	0.92%

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 six months ended 31 December 2008.

## **SUBSTANTIAL SHAREHOLDERS AND INTERESTS DISCLOSABLE UNDER THE SFO**

At 31 December 2008, the following interest of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

<b>Name of shareholders</b>	<b>Number of ordinary shares held</b>	<b>Percentage of shares held</b>
Mr. Lin Cheuk Fung	375,000,000	9.75%
Ultra Choice	720,000,000	18.71%
Faith Mount	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 2008.

## **ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES**

Save as disclosed above, at no time during the six months ended 31 December 2008 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 INCOME STATEMENT

For the six months ended 31 December 2008

	Notes	Six months ended 31 December 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Turnover	3	344,799	159,818
Cost of sales		(59,839)	(64,503)
Gross profit		284,960	95,315
Other revenue		4,249	4,220
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost		–	91,027
Distribution costs		(354)	(154)
Administrative expenses		(13,918)	(17,474)
Share of results of an associate		22,068	12,276
Gain on redemption of convertible notes		20,368	–
Share-based payment expenses		–	(74,449)
Impairment loss of intangible assets	10	(495,400)	–
Fair value charges on derivative financial instruments		(124,976)	–
Fair value changes on financial assets at fair value through profit or loss		(199)	2,133
(Loss)/profit from operations	4	(303,202)	112,894
Finance costs	5	(16,654)	(953)
(Loss)/profit before taxation		(319,856)	111,941
Income tax credit/(expense)	6	1,256	(1,183)
Net (Loss)/profit for the period		(318,600)	110,758
Attributable to:			
– Minority interests		49,552	61,687
– Equity holders of the Company		(368,152)	49,071
Net (Loss)/profit for the period		(318,600)	110,758
Dividend	7	–	–
(Loss)/earnings per share attributable to equity holders of the Company			
– Basic and diluted	8	(9.57 cents)	2.108 cents

The notes on pages 17 to 30 form part of this interim financial report.

# Neptune Group Limited

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2008

		<b>31 December 2008 (Unaudited) HK\$'000</b>	30 June 2008 (Audited) HK\$'000
	<i>Notes</i>		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	<b>134,701</b>	142,880
Investment properties		<b>30,284</b>	30,500
Prepaid land premiums		<b>4,597</b>	4,662
Interest in an associate		<b>170,685</b>	148,617
Intangible assets	10	<b>1,521,393</b>	2,016,793
Goodwill		<b>10,483</b>	10,483
		<b>1,872,143</b>	2,353,935
<b>Current assets</b>			
Inventories		<b>21,902</b>	16,968
Trade and other receivables	11	<b>266,938</b>	390,244
Loan receivables		<b>6,000</b>	6,000
Amount due from a related company		–	710
Deposit for acquisition of a company		<b>50,000</b>	–
Financial assets at fair value through profit or loss		<b>83</b>	282
Dividend receivable		–	42,470
Derivative financial instruments		–	145,328
Pledged bank deposits		<b>214</b>	214
Cash at securities companies		<b>264</b>	264
Cash and bank balances		<b>45,294</b>	39,424
		<b>390,695</b>	641,904
<b>Total assets</b>		<b>2,262,838</b>	2,995,839
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	12	<b>769,449</b>	769,449
Reserves		<b>81,680</b>	536,446
		<b>851,129</b>	1,305,895
Minority interests		<b>741,147</b>	691,595
<b>Total equity</b>		<b>1,592,276</b>	1,997,490

# Neptune Group Limited

## CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 31 December 2008

		<b>31 December 2008 (Unaudited)</b>	30 June 2008 (Audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	6	<b>39,010</b>	50,089
Convertible notes	14	<b>564,707</b>	685,393
		<b>603,717</b>	735,482
<b>Current liabilities</b>			
Bank overdrafts		–	867
Trade and other payables	13	<b>47,314</b>	32,583
Promissory notes		<b>15,000</b>	15,000
Dividend payable to minority shareholders		–	210,153
Tax payable		<b>4,531</b>	4,264
		<b>66,845</b>	262,867
<b>Total liabilities</b>		<b>670,562</b>	998,349
<b>Total equity and liabilities</b>		<b>2,262,838</b>	2,995,839
<b>Net current assets</b>		<b>323,850</b>	379,037
<b>Total assets less current liabilities</b>		<b>2,195,993</b>	2,732,972

The notes on pages 17 to 30 form part of this interim financial report.

# Neptune Group Limited

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2008 (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	Special reserve HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Sub total HK\$'000	Minority interest HK\$'000	Total equity HK\$'000
At 1 July 2008 (Audited)	769,449	292,798	545,379	2,264	(113,760)	27,008	(217,243)	1,305,895	691,595	1,997,490
Redemption of convertible notes	-	-	(113,526)	-	-	-	17,842	(95,684)	-	(95,684)
Deferred tax credit arising on redemption of convertible notes	-	-	9,070	-	-	-	-	9,070	-	9,070
(Loss)/profit for the period	-	-	-	-	-	-	(368,152)	(368,152)	49,552	(318,600)
At 31 December 2008 (Unaudited)	769,449	292,798	440,923	2,264	(113,760)	27,008	(567,553)	851,129	741,147	1,592,276

For the six months ended 31 December 2007 (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	Special reserve HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Sub total HK\$'000	Minority interest HK\$'000	Total equity HK\$'000
At 1 July 2007 (Audited)	287,953	61,752	-	2,264	-	6,068	(77,429)	280,608	15,588	296,196
Open offer	143,976	-	-	-	-	-	-	143,976	-	143,976
Issue of shares	49,520	91,612	-	-	-	-	-	141,132	-	141,132
Equity-settled share-based payments	-	-	-	-	-	74,449	-	74,449	-	74,449
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	551,707	551,707
Profit for the period	-	-	-	-	-	-	49,071	49,071	61,687	110,758
At 31 December 2007 (Unaudited)	481,449	153,364	-	2,264	-	80,517	(28,358)	689,236	628,982	1,318,218

The notes on pages 17 to 30 form part of this interim financial report.



# Neptune Group Limited

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2008

	Six months ended	
	31 December	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<b>Net cash inflow/(outflow) from operating activities</b>	<b>418,329</b>	(44,735)
<b>Net cash outflow from investing activities</b>	<b>(6,864)</b>	(150,772)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(404,728)</b>	285,108
<b>Increase in cash and cash equivalents</b>	<b>6,737</b>	89,601
<b>Cash and cash equivalents at beginning of period</b>	<b>38,821</b>	160,992
<b>Cash and cash equivalents at end of period</b>	<b>45,558</b>	250,593
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	45,294	228,366
Cash at securities companies	264	22,227
	<b>45,558</b>	250,593

The notes on pages 17 to 30 form part of this interim financial report.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2008

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim financial report is unaudited, but has been reviewed by the Company's audit committee. The 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").

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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 2008 except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ending 30 June 2009 as follows.

The HKICPA has issued the following new Interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group and the Company:

HK(IFRIC)-Int 12, Service Concession Arrangements

HK(IFRIC)-Int 14, HKAS 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Amendment to HKAS 39, Financial instruments: Recognition and measurement, and HKFRS 7, Financial instruments: Disclosure – Reclassification of financial assets

These HKFRS developments have had no material impact on the Group's financial statements as either they were consistent with accounting policies already adopted by the Group or they were not relevant to the Group's and the Company's operations.

Up to the date of issue of this interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the period ended 31 December 2008 and which have not been adopted in this interim financial report.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to result in a restatement of the Group's or the Company's results of operations and financial position.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

For the six months ended 31 December 2008

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

HKAS 1 (Revised)	Presentation of Financial Statements
HKFRS 8	Operating Segments

The preparation of an interim report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 30 June 2008. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

### 3. SEGMENTAL INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are investment in gaming related business, the cruise business and non-core business such as manufacturing and trading of electrical equipments, provision of electrical engineering and contracting services and trading of listed securities.

# Neptune Group Limited

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2008

### 3. SEGMENTAL INFORMATION (continued)

#### Business segments

	Six months ended 31 December 2008 (Unaudited)					Consolidated HK\$'000
	Sales of electrical equipment HK\$'000	Cruise leasing HK\$'000	Trading of listed securities HK\$'000	Electrical engineering and contracting services HK\$'000	Gaming related business HK\$'000	
<b>Segment revenue:</b>						
Sales/services to external customers	44,102	18,000	-	20,042	262,655	344,799
<b>Segment results</b>	<b>6,384</b>	<b>13,745</b>	<b>-</b>	<b>2,176</b>	<b>262,655</b>	<b>284,960</b>
Interest income						203
Other income						4,046
Share of profit of an associate						22,068
Gain on redemption of convertible notes						20,368
Fair value changes on derivative financial instruments						(124,976)
Fair value changes on financial assets through profit or loss						(199)
Impairment loss on intangible assets						(495,400)
Distribution costs						(354)
General and administrative expenses						(13,918)
Profit from operations						(303,202)
Finance costs						(16,654)
Profit before taxation						(319,856)
Taxation						1,256
Net profit for the period						(318,600)

# Neptune Group Limited

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2008

### 3. SEGMENTAL INFORMATION (continued)

#### Business segments (continued)

	Six months ended 31 December 2007 (Unaudited)					Consolidated HK\$'000
	Sales of electrical equipment HK\$'000	Cruise leasing HK\$'000	Trading of listed securities HK\$'000	Electrical engineering and contracting services HK\$'000	Gaming related business HK\$'000	
<b>Segment revenue:</b>						
Sales/services to external customers	50,421	18,000	-	18,229	73,168	159,818
Segment results	4,855	13,745	-	3,547	73,168	95,315
Interest income						3,680
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost						91,027
Other income						2,673
Share of profit of an associate						12,276
Distribution costs						(154)
General and administrative expenses						(91,923)
Profit from operations						112,894
Finance costs						(953)
Profit before taxation						111,941
Taxation						(1,183)
Net profit for the period						110,758

# Neptune Group Limited

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2008

### 4. (LOSS)/PROFIT FROM OPERATIONS

	Six months ended	
	31 December	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<b>(Loss)/profit from operations is stated after charging/(crediting):</b>		
Amortisation of prepaid land premiums	65	32
Depreciation of property, plant and equipment	8,101	8,146
Valuation loss on investment properties	216	-
Share-based payment expenses	-	74,449

### 5. FINANCE COSTS

	Six months ended	
	31 December	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank overdrafts and other borrowings		
wholly repayable within five years	-	54
Imputed interest on convertible notes	16,654	-
Imputed interest on promissory notes	-	899
	16,654	953

# Neptune Group Limited

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2008

### 6. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the period.

	Six months ended	
	31 December	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	753	1,183
Deferred tax:		
Origination and reversal of temporary differences	(2,009)	–
Income tax (credit)/expenses	(1,256)	1,183

### 7. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend in respect of the six months ended 31 December 2008 (2007: HK\$ Nil).

# Neptune Group Limited

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2008

### 8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share attributable to equity holders of the Company is based on the following data:

	Six months ended 31 December	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<b>(Loss)/earnings</b>		
(Loss)/earnings attributable to the equity holders of the Company	<b>(368,152)</b>	49,071

	Six months ended 31 December	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<b>Number of shares</b>		
Weighted average number of ordinary shares	<b>3,847,245</b>	2,327,502

Basic and diluted loss per share for the period ended 31 December 2008 have been presented in a single line as (i) the average market price of ordinary shares, at no time during the year, exceeds the exercise price of the option, therefore, the conversion of share option would be anti-dilutive, and (ii) the effect of the Company's outstanding convertible notes were anti-dilutive.

Basic and diluted earnings per share for the period ended 31 December 2007 have been presented in a single line as the average market price of ordinary shares, at no time during the year, exceeds the exercise price of the option, therefore, the conversion of share option would be anti-dilutive.

### 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2008, the Group acquired property, plant and equipment at a cost of approximately HK\$44,000 (six months ended 31 December 2007: HK\$3,300,000). The Group has not disposed any property, plant and equipment during the six months ended 31 December 2008 (2007: NIL).



# Neptune Group Limited

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2008

### 10. INTANGIBLE ASSETS

	Rights in sharing of profit streams <i>HK\$'000</i>	Development cost <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 30 June 2008, 1 July 2008 and 31 December 2008	2,187,793	4,673	2,192,466
<b>Accumulated amortisation and impairment:</b>			
At 30 June 2008 and 1 July 2008	171,000	4,673	175,673
Impairment loss recognised for the period	495,400	–	495,400
At 31 December 2008	666,400	4,673	671,073
<b>Net book value:</b>			
<b>At 31 December 2008</b>	1,521,393	–	1,521,393
<b>At 30 June 2008</b>	<b>2,016,793</b>	<b>–</b>	<b>2,016,793</b>

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

	Hou Wan Profit Agreement <i>HK\$'000</i>	Neptune Ouro Profit Agreement <i>HK\$'000</i>	Hao Cai Profit Agreement <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 30 June 2008 and 1 July 2008	567,793	362,000	1,087,000	2,016,793
Impairment loss recognised for the period	–	(123,600)	(371,800)	(495,400)
<b>At 31 December 2008</b>	<b>567,793</b>	<b>238,400</b>	<b>715,200</b>	<b>1,521,393</b>

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\$495,400,000 was recognised during the period ended 31 December 2008 by reference to the valuation report issued by Ascent Partners Transaction Service Limited, independent qualified professional valuers, at 31 December 2008 which valued the rights in sharing of profit streams on discounted cash flow method. 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.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2008

### 11. TRADE AND OTHER RECEIVABLES

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 balance sheet date:

	<b>31 December 2008 (Unaudited) HK\$'000</b>	30 June 2008 (Audited) HK\$'000
0 – 30 days	<b>38,915</b>	61,900
31 – 60 days	<b>42,583</b>	58,783
61 – 90 days	<b>50,518</b>	36,799
Over 90 days	<b>127,611</b>	208,392
	<b>259,627</b>	365,874

### 12. SHARE CAPITAL

	<b>31 December 2008 (Unaudited) HK\$'000</b>	30 June 2008 (Audited) HK\$'000
<b>Authorised:</b>		
50,000,000,000 ordinary shares of HK\$0.2 each	<b>10,000,000</b>	10,000,000
	<b>Number of Ordinary share '000</b>	<b>HK\$'000</b>

#### Issued and fully paid:

Ordinary shares of HK\$0.2 each		
At 30 June 2008, 1 July 2008 and at 31 December 2008	3,847,245	769,449

# Neptune Group Limited

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2008

### 13. TRADE AND OTHER PAYABLES

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

#### Ageing analysis

Included in trade and other payables are trade creditors with the following ageing as of the balance sheet date:

	<b>31 December 2008 (Unaudited) HK\$'000</b>	30 June 2008 (Audited) HK\$'000
0 – 30 days	<b>3,813</b>	4,975
31 – 60 days	<b>3,025</b>	5,730
61 – 90 days	<b>11</b>	2,490
Over 90 days	<b>203</b>	67
	<b>7,052</b>	13,262

### 14. CONVERTIBLE NOTES

- (i) 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 with a par value of HK\$0.2 each of the Company at an initial conversion price of HK\$0.3 per share, subject to adjustment. The effective interest rate is approximately 5%.

During the period ended 31 December 2008, the Company partially redeemed the First Convertible Note with a principal amount of HK\$160,500,000 by cash.

- (ii) 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 with a par value of HK\$0.2 each of the Company at an initial conversion price of HK\$0.3 per share, subject to adjustment. The effective interest rate is approximately 5%.

During the period ended 31 December 2008, the Company partially redeemed the Second Convertible Note with a principal amount of HK\$27,000,000 by cash.

# Neptune Group Limited

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2008

### 14. CONVERTIBLE NOTES (continued)

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 HK\$'000	Second Convertible Note HK\$'000	Total HK\$'000
At 1 July 2007	-	-	-
Liability component at date of issue (i.e., 17 March 2008)	583,365	95,158	678,523
Interest expenses charged	8,333	1,359	9,692
Interest expenses payable	(2,427)	(395)	(2,822)
<b>At 30 June 2008</b>	<b>589,271</b>	<b>96,122</b>	<b>685,393</b>
Interest expenses charged	14,320	2,334	16,654
Interest expenses payable	(4,130)	(673)	(4,803)
Redemption	(113,452)	(19,085)	(132,537)
<b>At 31 December 2008</b>	<b>486,009</b>	<b>78,698</b>	<b>564,707</b>

The fair value of the liability component of the convertible notes at 31 December 2008 and 30 June 2008 was determined based on the present value of the estimate future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date, approximately the corresponding carrying amounts.

# Neptune Group Limited

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2008

### 15. CONTINGENT LIABILITIES

	<b>31 December 2008 (Unaudited) HK\$'000</b>	30 June 2008 (Audited) HK\$'000
(i) Other trade guarantees	<b>214</b>	214
	<b>214</b>	214

- (ii) On 1 September 2004, a writ of summons and statement of claim was made by The Centre (49) Limited in respect of the office premises previously surrendered 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 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 periods ended 31 December 2008 and year ended 30 June 2008, there has been no significant progress. As at the date of approval of these financial statements, the case is still pending for hearing.

### 16. CAPITAL COMMITMENTS

Capital commitment as at 31 December 2008 and 30 June 2008 in aggregate for acquisition of a company are as follows:

	<b>31 December 2008 (Unaudited) HK\$'000</b>	30 June 2008 (Audited) HK\$'000
Contracted but not provided for	<b>4,320,000</b>	4,320,000

# Neptune Group Limited

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2008

### 17. MATERIAL RELATED PARTY TRANSACTIONS

Related parties	Relationship	Nature of transactions	Six months ended	
			31 December 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Gason Electrical Contracting Ltd.	Company in which two directors of subsidiaries have beneficial interests	Sales – received	12,746	12,726
Gold Arch Engineering Ltd	Company in which two directors of subsidiaries have beneficial interests	Management fee paid	240	–
Key management personnel	Directors	Directors' emoluments	1,722	4,450

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.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2008

### 18. SUBSEQUENT EVENTS

- (a) On 22 June 2008, Rich Pearl Limited ("Rich Pearl"), a wholly owned subsidiary of the Company, entered into a share acquisition agreement with Mr. Choi Tai Wai ("Mr. Choi") to acquire the entire issued share capital of Best Max Enterprises Limited ("Best Max") for a total consideration of approximately HK\$4,320,000,000. The main asset of Best Max is the Star Profit Agreement. Under the share acquisition agreement, the consideration shall be settled by Rich Pearl (i) as to HK\$325,000,000 in cash; (ii) as to HK\$1,200,000,000 by procuring the Company to issue the promissory notes to Mr. Choi; and (iii) as to the balance of HK\$2,795,000,000 by procuring the Company to allot and issue 6,211,111,111 consideration shares to Mr. Choi at an issue price of HK\$0.45 per share. Refer to the Company's circular dated 26 September 2008 for further details. During the period ended 31 December 2008, the Company paid a deposit of HK\$50,000,000 to Mr. Choi for this acquisition.

As a result of the current worldwide financial crisis coupled with the PRC Government's travel restrictions on PRC nationals to Macau, it has become apparent to the Company and Mr. Choi that the original terms of the share acquisition agreement require amendment.

Up to the date of approval of this interim report, the acquisition has not been completed as the Company is under renegotiation for the terms of the acquisition with Mr. Choi.

- (b) On 22 June 2008, the Company entered into a loan agreement with Peak Wing Enterprises Limited ("Peak Wing"), a company wholly owned by Mr. Choi. Subject to successful completion of fund raising exercise by the Company on or before 31 March 2009, the Company shall provide a term loan facility to Peak Wing of an amount of up to HK\$6,000,000,000. The loan will carry interest at the prime lending rate as quoted by the Hongkong and Shanghai Banking Corporation Limited in Hong Kong plus 2% per annum.

Pursuant to the loan agreement, within twelve months from the date thereof or such later date as the parties may agree in writing, the Company shall have the right by giving not less than three days' notice in writing to Peak Wing, to capitalise HK\$200,000,000 of the principal amount of the loan for an allotment and issue of such number of new shares of Peak Wing as representing 99.99% of the enlarged issued share capital of Peak Wing on a fully diluted basis. Refer to the Company's circular dated 26 September 2008 for further details.

Up to the date of approval of this interim report, the term loan facility has not yet been provided to Peak Wing as the fund raising exercise was not completed by the Company and the Company is under renegotiation for the terms of the loan with Peak Wing.