Neptune Group Limited
海王國際集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00070)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

The board of directors (the "Board") of Neptune Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the six months ended 31 December 2010 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 December 2010 (in HK Dollars)

	Notes	Six months ended 31 December 2010 (Unaudited) *HK$'000*	2009 (Unaudited) *HK$'000*
Turnover	*3*	**192,416**	195,890
Cost of sales		**(5,067)**	(8,608)
Gross profit		**187,349**	187,282
Other revenue		**101,999**	68,955
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost		**–**	40,738
Administrative expenses		**(2,246)**	(4,346)
Share of results of an associate		**7,249**	(76,590)
(Loss)/Gain on redemption of convertible notes		**(9,001)**	40,776
Impairment loss of intangible assets		**(85,200)**	(154,600)
Fair value changes on financial assets at fair value through profit or loss		**–**	257
Profit from operations		**200,150**	102,472
Finance costs	*5*	**(1,025)**	(8,841)
Profit before taxation	*4*	**199,125**	93,631
Income tax credit	*6*	**123**	1,052
Profit for the period		**199,248**	94,683
Other comprehensive income/(loss) for the period		**–**	–
Total comprehensive income for the period		**199,248**	94,683
Attributable to:			
– Non-controlling interests		**79,039**	65,253
– Equity holders of the Company		**120,209**	29,430
Net profit and total comprehensive income for the period		**199,248**	94,683
Dividend	*7*	**–**	–
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	*8(a)*	**3.12 cents**	0.76 cents
Diluted	*8(b)*	**3.12 cents**	(0.06 cents)

CONDENSED CONSOLIDATED BALANCE SHEET
As at 31 December 2010 (in HK Dollars)

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

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

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

2. CHANGE IN ACCOUNTING POLICIES

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

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

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

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

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

3. TURNOVER AND SEGMENT REPORTING

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

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

– the gaming and entertainment segment: this segment receives the profit streams from gaming and entertainment related business. The activities were carried out in Macau.

– the cruise leasing segment: this segment leases the Group's cruise ship to generate rental income. Currently, the Group's cruise ship is located in Hong Kong and high sea.

(a) Segment Results, Assets and Liabilities

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

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

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

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

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

Segment results

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

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

Note:

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

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

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

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

(c) Segment assets and liabilities

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

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

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

4. PROFIT BEFORE TAXATION

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

5. FINANCE COSTS

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

6. TAXATION

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

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

7. INTERIM DIVIDEND

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

8. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings per share

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

(b) Diluted earnings/(loss) per share

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

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

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

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

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

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

9. TRADE AND OTHER RECEIVABLES

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

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

Ageing analysis

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

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

10. NON-ADJUSTING POST BALANCE SHEET EVENTS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

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

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

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

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

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

GAMING RELATED BUSINESS

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

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

CRUISE BUSINESS

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

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.

INTERIM DIVIDEND

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

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

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

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

PLEDGE OF GROUP'S ASSETS

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

EMPLOYEES

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

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

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

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

THE BOARD OF DIRECTORS

(a) Composition

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

(b) Roles of Chairman and Chief Executive Officer

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

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

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

(c) Responsibilities

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

AUDIT COMMITTEE

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

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

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

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.

By Order of the Board
Neptune Group Limited
Lin Cheuk Fung
Chairman

Hong Kong, 24 February 2011

As at the date of this announcement, the Board comprises Mr. Lin Cheuk Fung, Mr. Nicholas J. Niglio, Mr. Chan Shiu Kwong, Stephen, Mr. Lau Kwok Hung and Mr. Wan Yau Shing, Ban (all being executive Directors), Mr. Cheung Yat Hung, Alton, Mr. Yue Fu Wing and Mr. Chan Choi Kam (all being independent non-executive Directors).