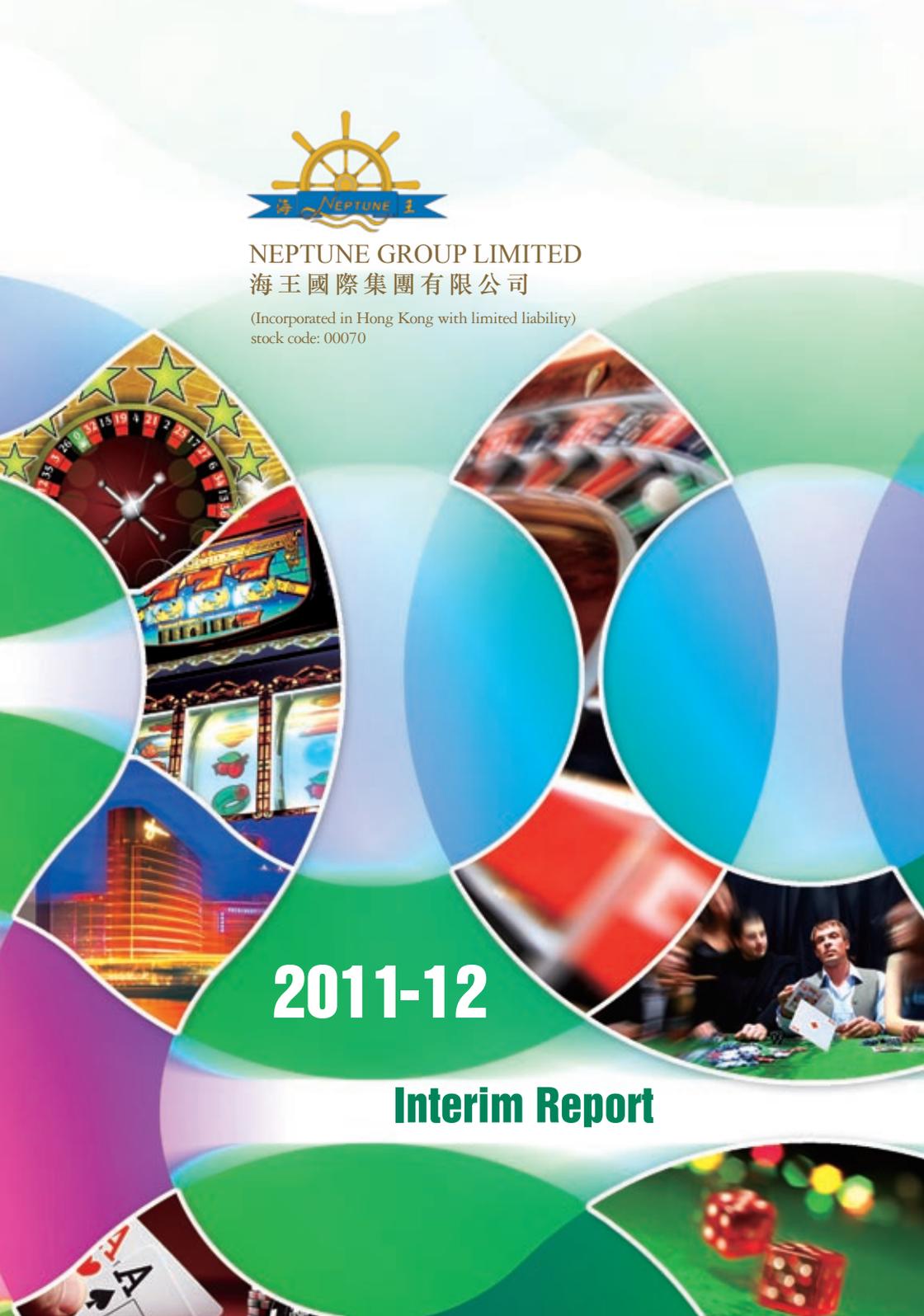




NEPTUNE GROUP LIMITED
海王國際集團有限公司

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



2011-12

Interim Report

Neptune Group Limited

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Neptune Group Limited

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors:

Mr. Lin Cheuk Fung (*Chairman*)

Mr. Nicholas J. Niglio

Mr. Chan Shiu Kwong, Stephen

Mr. Lau Kwok Hung

Independent non-executive directors:

Mr. Cheung Yat Hung, Alton

Mr. Yue Fu Wing

Mr. Chan Choi Kam

COMPANY SECRETARY

Mr. Lau Kwok Hung

AUDIT COMMITTEE

Mr. Cheung Yat Hung, Alton

Mr. Yue Fu Wing

Mr. Chan Choi Kam

AUDITORS

CCIF CPA Limited

34/F, The Lee Gardens

33 Hysan Avenue,

Causeway Bay, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

Chong Hing Bank Limited

LEGAL ADVISORS

Robertsons Solicitors & Notaries

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

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STOCK CODE

00070

CHAIRMAN'S STATEMENT

The Neptune Group Limited strategy and goals for the past six months and going forward remain the same and remain clear. Shareholder value, employee inclusion and brand awareness are just that. Our strength is gleaned through this process and our commitment to the future is consistent. As always, we remain committed to our unique presence in Macau gaming sector. Expanding and contracting as needed, allows us to use properly the incredible experience we have assimilated over the past years. Certainly, it is fair to say our level of that mentioned experience is possessed by very few and properly utilized by even fewer. We are most proud of this achievement and expect the years to come to provide even more opportunities for the Group to grow. Macau offers the business community a rare opportunity to be an integral part of a worldwide phenomenon. We have positioned ourselves carefully within the profitable sector of Macau and have prospered accordingly. We firmly believe this prosperity within the SAR to expand at a very acceptable growth rate and for the Group to be positioned properly.

As we have mentioned in numerous writings the Company is quite active in securing new and profitable ventures. Our team is diligent to new undertakings under strict compliance guidelines set by the Board. Carefully we evaluate each and every potential diversification and protect the company's assets accordingly. Always pragmatic, our core business investment continues to closely involve the Macau gaming sector. With record breaking tourist arrivals, hotel stays and gaming discretionary spending we see no reason to alter our course in the coming 6 months. As you would expect from your Board of Directors, a system to closely monitor future growth is in place. Consequently, we are now able to act prudently to protect your investment.

We have no reason to believe otherwise that the overall Macau economy will continue to thrive for the next six months. We acknowledge the existence of bearish economists who believe a slowdown is inevitable. In reality however, this "slowdown" compares globally superior to other countries dynamic growth. Our confidence remains strong and we intend to do our part to accelerate Macau to its fullest potential.

I thank you for your continued support of the Group.

Lin Cheuk Fung

Chairman of the Board

Hong Kong, 28 February 2012

Neptune Group Limited

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The unaudited net profit of the Group for the six month period ended 31 December 2011 amounted to approximately HK\$229,717,000 (2010: profit HK\$199,248,000); earning per share of HK3.62 cents per share, up from the same period last year of HK\$3.12 cents earning per share. Return of investments in gaming sector is our main source of net profit. It has contributed more than HK\$226 million during the six month period whereas the gain in disposal of subsidiaries amounted to HK\$ 4.6 million, the other one is the rental income from cruise rental which has now been classified as discontinued operation adding HK\$2.3 million to our net profit. For this period, we has computed imputed interest on two convertible bonds in total of HK\$0.5 million and expend administration cost HK\$2.7 million. The unaudited net profit was HK\$229.7 million when all the above income and expenses were all recorded.

Our revenue has HK\$220,400 million was up over HK\$39 million from a year ago, and was our second year in a row with business growing, gross margin is stable in 2011, as our investments in gaming industry continued to enable leadership in market by our differentiated performance and exceptional roadmap and exciting new investment models, which drove a richer mix across client base, this will transform as an cornerstone of our growth.

For the six months period, we generated a record HK\$280 million of cash from operations and HK\$94 million cash from proceed of disposal of asset held for sales and disposal of subsidiaries altogether. On the other hand, we paid HK\$251 million as dividends due to minority stakeholder of our subsidiaries, trimming the high level of indebtedness so as to improve our financial position.

In months ahead, we forecast our revenue in the third quarter may be negatively impacted when there is possible scenario China economy may be battered by shrinkage of consumer demand for export products due to hefty fiscal budget deficit in some European countries. The devastating impact may ultimately lead to default repayment appear. This may cause heavy loss for local investor who may already tapped into these kinds of risky investments few years ago. Unfortunately if this global crisis really burst up, definitely it will affect our revenue growth as most of our customer originated from China.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS OVERVIEW *(continued)*

Turning to 2012, we are planning on another challenging year, with revenue growth may be slowdown and gross margin drop below our historical range due to the austerity policies of China still in motion.

Importantly we will continue to invest in our business, continuing to acquire more VIP room operators' business in Macau and in other Asian countries, and in fact when the market is presently beclouded in a liquidity trap and also in period of very low private confidence, we therefore can bargain good price in coming new acquisitions at this moment of time.

GAMING RELATED BUSINESS

Revenue for the commission from rolling turnover for six months period ended 31 December 2011 was recorded approximately HK\$220,370,000 (2010: HK\$180,416,000).

Investments in gaming segment have contributed more than 99% of our group profit, our share of profit from interest in associate has slightly dropped to \$5.6 million instead of HK\$7.3 million in the corresponding period last year. At present, we have only acquired shares in junket business which they have operation in VIP tables located in Sand Macau casino, StarWorld Casino and Venetian Casino.

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

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 2011 (2010: HK\$Nil).

Neptune Group Limited

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group had net current assets of HK\$422,281,000 as at 31 December 2011 (30 June 2011: HK\$273,439,000). There were no bank and other borrowings as at 31 December 2011 (30 June 2011: HK\$Nil). The total equity of the Group for the period ended as at 31 December 2011 was HK\$1,906,605,000 (30 June 2011: HK\$1,783,959,000). The gearing ratio, calculated on the basis of total debt (which comprises convertible notes) over total shareholders' funds as at 31 December 2011, was approximately 1.6% (30 June 2011: 1.8%). The total indebtedness of the Group comprised mainly of convertible notes. As at 31 December 2011, the face value of total indebtedness approximately amounted to HK\$65,630,000 (30 June 2011: HK\$208,795,000) comprising of HK\$24 million dividend payable, HK\$7 million amount due to associate, HK\$12 million accruals and other payable and HK\$1 million deferred tax and remained the liability component of two convertible notes at HK\$22 million after cash redemptions to bond holders in the past few years that effectively help us to reduce our group's total indebtedness. Way back to first issue of these two convertible bonds 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 2011, no leasehold land and buildings in Hong Kong of the Group were pledged to secure the bank facilities (30 June 2011: HK\$Nil).

EMPLOYEES

The Group employs approximately 30 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 2011, 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, 2011.

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 four executive directors, and three independent non-executive directors.

(b) Roles of Chairman and Chief Executive Officer

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

Neptune Group Limited

CORPORATE GOVERNANCE REPORT *(continued)*

THE BOARD OF DIRECTORS *(continued)*

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

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

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

(c) Responsibilities

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

AUDIT COMMITTEE

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

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

The interim report and the unaudited condensed consolidated interim financial statements for the six months ended 31 December 2011 has been reviewed by the audit committee and agreed to the accounting principles and practices adopted by the Company.

CORPORATE GOVERNANCE REPORT *(continued)*

REMUNERATION COMMITTEE

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

ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES

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

I. Shares

As at 31 December 2011, the interest of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long position in ordinary shares of the Company

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

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

Neptune Group Limited

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

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

Name of director	Number of ordinary share options held	Percentage of issued options As at 31 December 2011
Mr. Lin Cheuk Fung	2,390,000	6.87%
Mr. Chan Shiu Kwong, Stephen	2,388,000	6.87%
Mr. Lau Kwok Hung	2,388,000	6.87%
Mr. Nicholas J. Niglio	2,300,000	6.62%
Mr. Chan Choi Kam	23,000,000	66.15%

Save as disclosed above, none of the Company's directors and chief executives or their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or had exercised any such rights during the period ended 31 December 2011.

Neptune Group Limited

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

SUBSTANTIAL SHAREHOLDERS AND INTERESTS DISCLOSABLE UNDER THE SFO

At 31 December 2011, the following interest of 5% or more of the issued share capital of the Company were recorded in the register of interest required to be kept by the Company pursuant to Section 336 of the SFO.

Name of shareholders	Number of ordinary share held	Percentage of shares held
Mr. Lin Cheuk Fung	375,000,000	9.75%
Ultra Choice Limited	720,000,000	18.71%
Miss Lin Yee Man	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 2011.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at no time during the six months ended 31 December 2011 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 debentures of the Company or any other body corporate.

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

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

Neptune Group Limited

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2011

	Notes	Six months ended 31 December	
		2011 (Unaudited) HK\$'000	2010 (Restated) (Unaudited) HK\$'000
Continuing operations:			
Turnover	3	220,370	180,416
Other revenue		–	101,998
Administrative expenses		(2,687)	(2,245)
Loss on redemption of convertible notes		–	(9,001)
Gain on disposal of subsidiaries	15	4,581	–
Impairment loss of intangible assets	10	–	(85,200)
Profit from operations		222,264	185,968
Share of results of an associate		5,660	7,249
Finance costs	5	(536)	(1,025)
Profit before taxation	4	227,388	192,192
Income tax credit	6	65	123
Profit for the period from continuing operations:		227,453	192,315
Profit for the period from discontinued operation	14	2,264	6,933
Profit for the period		229,717	199,248
Other comprehensive income/(loss) for the period		–	–
Total comprehensive income for the period		229,717	199,248

Neptune Group Limited

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(continued)

For the six months ended 31 December 2011

	Notes	Six months ended 31 December	
		2011 (Unaudited) HK\$'000	2010 (Restated) (Unaudited) HK\$'000
Attributable to:			
– Non-controlling interests		90,485	79,039
– Equity shareholders of the Company		139,232	120,209
Profit and total comprehensive income for the period		229,717	199,248
Dividend	7	–	–
Earnings per share attributable to equity shareholders of the Company			
Basic	8(a)		
– From continuing and discontinued operations		3.62 cents	3.12 cents
– From continuing operations		3.58 cents	3.00 cents
– From discontinued operation		0.04 cents	0.12 cents
Diluted	8(b)		
– From continuing and discontinued operations		3.55 cents	3.12 cents
– From continuing operations		3.51 cents	3.00 cents
– From discontinued operation		0.04 cents	0.12 cents

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

Neptune Group Limited

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2011

		31 December 2011 (Unaudited) HK\$'000	30 June 2011 (Audited) HK\$'000
	<i>Notes</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	9	107	107
Investment properties		–	32,800
Interest in an associate		52,125	46,465
Intangible assets	10	1,444,493	1,444,493
Goodwill		10,438	10,438
		1,507,163	1,534,303
Current assets			
Trade and other receivables	11	293,188	324,673
Securities held for trading		2	223
Dividend receivable from an associate		34,406	34,406
Derivative financial instruments		–	–
Cash and bank balances		137,476	7,534
		465,072	366,836
Assets classified as held for sale		–	91,615
		465,072	458,451
Total assets		1,972,235	1,992,754
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	12	38,472	38,472
Reserves		1,292,580	1,153,348
		1,331,052	1,191,820
Non-controlling interests		575,553	592,139
Total equity		1,906,605	1,783,959

Neptune Group Limited

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

As at 31 December 2011

	31 December 2011 (Unaudited) <i>Notes</i>	30 June 2011 (Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
LIABILITIES		
Non-current liabilities		
Deferred tax liabilities	961	2,301
Convertible notes	13 21,878	21,482
	22,839	23,783
Current liabilities		
Accruals and other payables	11,894	15,685
Amount due to an associate	7,000	–
Dividend payable to non-controlling shareholders	23,798	167,498
Tax payable	99	1,829
	42,791	185,012
Total liabilities	65,630	208,795
Total equity and liabilities	1,972,235	1,992,754
Net current assets	422,281	273,439
Total assets less current liabilities	1,929,444	1,807,742

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

Neptune Group Limited

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2011 (Unaudited)

	Equity attributable to equity holders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Convertible notes HK\$'000	Non-distributable reserve HK\$'000	Share option reserve HK\$'000	Retained profit HK\$'000	Sub total HK\$'000	Non-controlling interest HK\$'000	Total equity HK\$'000
At 1 July 2011 (Audited)	38,472	910,015	9,259	2,264	4,576	227,234	1,191,820	592,139	1,783,959
Total comprehensive income for the period	-	-	-	-	-	139,232	139,232	90,485	229,717
Dividend payable to non-controlling interest	-	-	-	-	-	-	-	(107,071)	(107,071)
At 31 December 2011 (Unaudited)	38,472	910,015	9,259	2,264	4,576	366,466	1,331,052	575,553	1,906,605

For the six months ended 31 December 2010 (Unaudited)

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

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

Neptune Group Limited

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2011

	Six months ended	
	31 December 2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash generated from operating activities	279,679	139,388
Net cash used in investing activities	94,034	(946)
Net cash used in financing activities	(243,771)	(138,619)
Increase in cash and cash equivalents	129,942	(177)
Cash and cash equivalents at beginning of period	7,534	9,517
Cash and cash equivalents at end of period	137,476	9,340
Analysis of balances of cash and cash equivalents		
Cash and bank balances	137,229	9,077
Cash at securities companies	247	263
	137,476	9,340

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

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2011

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 28 February 2012.

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 2011, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ending 30 June 2012. Details of these changes in accounting policies are set out in note 2.

2. CHANGE IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments of HKFRSs and one new Interpretation 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:

- HKAS 24(revised 2009), Related party disclosures
- Improvements to HKFRSs (2010)
- Amendments to HK(IFRIC)14, HKAS19 – The limit on a defined benefit asset, minimum funding requirements and their interaction-prepayments of a minimum funding requirement.

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

The amendments to HK(IFRIC)14 have had no material impact on the Group’s financial statements as they 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 classification, recognition and measurements of the amounts recognised in the financial statements and the disclosures in the current or comparative periods.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

For the six months ended 31 December 2011

3. TURNOVER AND SEGMENT REPORTING

The principal activity of the Company is investment holding. The principal activities of its subsidiaries is receiving the profit streams from gaming and entertainment related business. The Group's leasing of cruise ship was discontinued during the year ended 30 June 2011 and the cruise ship was disposed during the period.

Turnover from continuing operations represents the revenue from assignment of profit under the profit streams from gaming and entertainment related business during the year, while the turnover from discontinued operation represents the rental income generated from the cruise ship.

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 (the board of directors of the Company) 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.

Continuing operations:

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

Discontinued operation:

- the cruise leasing segment: this segment leases the Group's cruise ship to generate rental income. The cruise ship of the Group was disposed during the period.

Segment Results, Assets and Liabilities

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

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

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

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

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2011

3. TURNOVER AND SEGMENT REPORTING (continued)

Segment Results, Assets and Liabilities (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for six months ended 31 December 2011 and 31 December 2010 is set out below.

(a) Segment results

	Six months ended 31 December 2011 (Unaudited)			Six months ended 31 December 2010 (Unaudited)		
	Continuing operations	Discontinued operation	Consolidated	Continuing operations	Discontinued operation	Consolidated
	Gaming and entertainment HK\$'000	Cruise ship leasing HK\$'000		Gaming and entertainment HK\$'000	Cruise ship leasing HK\$'000	
Segment revenue:						
Revenue from external customers	220,370	2,000	222,370	180,416	12,000	192,416
Inter-segment revenue	-	-	-	-	-	-
Reportable segment revenue	220,370	2,000	222,370	180,416	12,000	192,416
Reportable segment profit	226,015	2,264	228,279	204,449	6,933	211,382
Interest income	-	77	77	-	1	1
Compensations from the vendors for shortfall in guaranteed profit (Note)	-	-	-	101,998	-	101,998
Share of profit of an associate	5,660	-	5,660	7,249	-	7,249
Impairment loss on intangible assets	-	-	-	(85,200)	-	(85,200)

Note:

Pursuant to the profit guarantee agreements and supplementary profit guarantee agreements in respect of the acquisition of Sky Advantage Limited ("Sky Advantage") and Profit Forest Limited ("Profit Forest"), 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 2011.

During the period ended 31 December 2010, 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.

During the period ended 31 December 2011, profits generated from Sky Advantage and Profit Forest met the guaranteed profits under the relevant profits guarantee agreements and no compensations from the vendors were recognised.

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2011

3. TURNOVER AND SEGMENT REPORTING (continued)

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

	For the six months ended	
	31 December	
	2011	2010
	(Unaudited)	(Restated)
	HK\$'000	HK\$'000
Revenue		
Continuing operations:		
Reportable segment revenue	220,370	180,416
Elimination of inter-segment revenue	–	–
Consolidated turnover from continuing operations	220,370	180,416
Discontinued operation (Note 14):		
Reportable segment revenue	2,000	12,000
Elimination of inter-segment revenue	–	–
Consolidated turnover from discontinued operation	2,000	12,000
Profit or loss		
Continuing operations:		
Reportable segment profit	226,015	204,449
Elimination of inter-segment profit	–	–
Reportable segment profit derived from Group's external customers	226,015	204,449
Finance costs	(536)	(1,025)
Unallocated head office and corporate expenses and income	(2,672)	(2,231)
Loss on redemption of convertible notes	–	(9,001)
Gain on disposal of subsidiaries	4,581	–
Consolidated profit before taxation from continuing operations	227,388	192,192
Discontinued operation (Note 14):		
Reportable segment profit	2,264	6,933
Elimination of inter-segment profit	–	–
Reportable segment profit derived from Group's external customers and consolidated profit before taxation from discontinued operation	2,264	6,933

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2011

3. TURNOVER AND SEGMENT REPORTING (continued)

(c) Segment assets and liabilities

	<u>Continuing operations</u>	<u>Discontinued operations</u>	
	Gaming and entertainment <i>HK\$'000</i>	Cruise ship leasing <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>

At 31 December 2011 (unaudited):

Reportable segment assets	1,850,522	–	1,850,522
(including interest in associate)	52,125	–	52,125
Reportable segment liabilities	27,321	–	27,321

At 30 June 2011 (audited):

Reportable segment assets	1,854,448	97,175	1,951,623
(including interest in associate)	46,465	–	46,465
Reportable segment liabilities	167,515	1,752	169,267

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

For the six months ended 31 December 2011

3. TURNOVER AND SEGMENT REPORTING *(continued)*

(d) Reconciliation of reportable segment assets and liabilities

	31 December 2011 (Unaudited) HK\$'000	30 June 2011 (Audited) HK\$'000
Assets		
Reportable segment assets	1,850,522	1,951,623
Investment properties	–	32,800
Unallocated head office and corporate assets	121,713	8,331
Consolidated total assets	1,972,235	1,992,754
Liabilities		
Reportable segment liabilities	27,321	169,267
Convertible notes	21,878	21,482
Income tax payable	99	1,829
Deferred tax liabilities	961	2,301
Unallocated head office and corporate liabilities	15,371	13,916
Consolidated total liabilities	65,630	208,795

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2011

3. TURNOVER AND SEGMENT REPORTING (continued)

(e) Geographical information

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

	Hong Kong		Macau	
	Six months ended		Six months ended	
	31 December		31 December	
	2011	2010	2011	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover from external customers				
– Continuing operations	–	–	220,370	180,416
– Discontinued operation	2,000	12,000	–	–
	As at	As at	As at	As at
	31 December	30 June	31 December	30 June
	2011	2011	2011	2011
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets				
– Continuing operations	107	32,907	1,507,056	1,501,396

(f) Major customer

Revenue of approximately HK\$90,320,000 (2010: HK\$75,618,000), HK\$87,772,000 (2010: HK\$69,751,000) and HK\$29,257,000 (2010: HK\$23,250,000) are derived from the largest external customers, the second largest external customer (which is owned by the beneficial shareholder of a substantial shareholder of the Company) and the third largest external customer (which is owned by the beneficial shareholder of another substantial shareholder of the Company), respectively. Transactions with each of these three customers have exceeded 10% of the Group's turnover.

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2011

4. PROFIT BEFORE TAXATION

	Six months ended 31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		

Profit from operations is stated after charging:

Discontinued operation:

Depreciation of property, plant and equipment	-	5,067
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5. FINANCE COSTS

	Six months ended 31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
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Continuing operations:

Imputed interest on convertible notes	536	1,025
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6. TAXATION

	Six months ended 31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		

Continuing operations:

Deferred tax:		
Origination and reversal of temporary differences	(65)	(123)
<hr/>		
Income tax credit	(65)	(123)

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 2011 and 2010.

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

For the six months ended 31 December 2011

7. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend in respect of the six months ended 31 December 2011 (2010: HK\$Nil).

8. EARNINGS 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 (see below) and the weighted average number of 3,847,244,500 ordinary shares (2010: 3,847,244,500 ordinary shares) in issue during the period.

Profit attributable to ordinary equity shareholders of the company.

	Six months ended	
	31 December	
	2011	2010
	(Unaudited)	(Restated)
	HK\$'000	(Unaudited)
		HK\$'000
Continuing operations	137,648	115,356
Discontinued operation	1,584	4,853
	139,232	120,209

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 31 December 2011 is based on the consolidated profit attributable to ordinary equity shareholders of the Company (see (i) below) and the weighted average number of approximately 3,939,579,000 ordinary shares in issue during the period after adjusting for the effect of all dilutive potential shares, calculated as follows:

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2011

8. EARNINGS PER SHARE (continued)

(b) Diluted earnings per share (continued)

(i) Profit/(loss) attributable to equity shareholders of the Company (diluted)

	Six months ended 31 December 2011 HK\$'000 (restated)
From continuing and discontinued operations:	
Profit attributable to equity shareholders	139,232
After tax effect of effective interest on liability component of convertible bonds	471
Profit attributable to equity shareholders (diluted)	139,703
Attributable to:	
Continuing operations	138,119
Discontinued operation	1,584
	139,703

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

	Six months ended 31 December 2011 Shares '000
Weighted average number of ordinary shares at 1 July	3,847,245
Effect of conversion of convertible bonds	92,334
Weighted average number of ordinary shares (diluted) at 31 December	3,939,579

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2011

8. EARNINGS PER SHARE (continued)

(b) Diluted earnings per share (continued)

During the six months ended 31 December 2011, the computation of diluted earnings per share did not assume the exercise of the Company's share options since the exercise price of the options exceeded the average market price of ordinary shares during that period.

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.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2011, the Group has not acquired any property, plant and equipment (2010: HK\$946,000) and has not disposed any property, plant and equipment (2010: Nil).

10. INTANGIBLE ASSETS

Rights in sharing of profit streams

HK\$'000

Cost:

At 30 June 2011, 1 July 2011 and 31 December 2011	2,260,393
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Accumulated amortisation and impairment:

At 30 June 2011, 1 July 2011 and 31 December 2011	815,900
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Net book value:

At 31 December 2011 (unaudited)	1,444,493
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At 30 June 2011 (audited)	1,444,493
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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>	New Star Profit Agreement <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 30 June 2011, 1 July 2011 and 31 December 2011	567,793	201,000	603,100	72,600	1,444,493

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2011

10. INTANGIBLE ASSETS (continued)

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.

No impairment loss in respect of rights in sharing of profit streams (2010: HK\$85,200,000) was recognised during the six months ended 31 December 2011 by reference to the directors' assessment.

11. TRADE AND OTHER RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit terms are generally for a period of 30 days for gaming and entertainment segment and cruise leasing segment.

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 2011 (Unaudited) HK\$'000	30 June 2011 (Audited) HK\$'000
0 – 30 days	38,873	18,935
31 – 60 days	33,448	24,809
61 – 90 days	41,590	29,501
Over 90 days	146,606	174,432
	260,517	247,677

12. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Authorised:		
At 30 June 2011, 1 July 2011 and 31 December 2011		
– Ordinary shares of HK\$0.01 each	50,000,000	500,000

	Number of ordinary share '000	Share capital HK\$'000
Issued and fully paid:		
At 30 June 2011, 1 July 2011 and 31 December 2011		
– Ordinary shares of HK\$0.01 each	3,847,245	38,472

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

For the six months ended 31 December 2011

13. CONVERTIBLE NOTES

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

During the six months ended 31 December 2011, the Company did not redeem the First Convertible Note.

During the six months ended 31 December 2010, the Company redeemed total principal amount of HK\$108,000,000 of the First Convertible Note for a total consideration of HK\$108,000,000 (the "Redemptions of the First Convertible Note"), resulting in a loss of approximately HK\$7,715,000 from the Redemption of the First Convertible Note, which was recognized in profit or loss. After the Redemptions of the First Convertible Note, the principal amount of HK\$26,200,000 of the First Convertible Note remained outstanding as at 31 December 2010.

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

During the six months ended 31 December 2011, the Company did not redeem the Second Convertible Note.

During the six months ended 31 December 2010, the Company redeemed total principal amount of HK\$18,000,000 of the Second Convertible Note for a total consideration of HK\$18,000,000 (the "Redemptions of the Second Convertible Note"), resulting in a loss of approximately HK\$1,286,000 from the Redemption of the Second Convertible Note, which was recognized in profit or loss. After the Redemptions of the Second Convertible Note, the principal amount of HK\$1,500,000 of the Second Convertible Note remained outstanding as at 31 December 2010.

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".

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2011

13. CONVERTIBLE NOTES (continued)

	First Convertible Note HK\$'000	Second Convertible Note HK\$'000	Total HK\$'000
At 1 July 2011	20,319	1,163	21,482
Interest expenses charged	507	29	536
Interest expenses payable	(133)	(7)	(140)
At 31 December 2011	20,693	1,185	21,878

14. DISCONTINUED OPERATION

On 24 June 2011, the Group entered into a memorandum of agreement to sell the cruise ship owned by a subsidiary of the Company for a cash consideration of US\$11,800,000 (equivalent to approximately HK\$92,000,000) to an independent third party. The disposal of the cruise ship was completed in August 2011.

- (a) The operation of cruise ship leasing was classified as discontinued operation and the results of the discontinued operation for the six months ended 31 December 2011 and 2010 were as follows:

	Note	2011 HK\$'000	2010 HK\$'000 (restated) (Unaudited)
Turnover	3	2,000	12,000
Cost of sales		–	(5,067)
Gross profit		2,000	6,933
Other revenue		77	1
General and administrative expenses		(2)	(1)
Profit from operation:		2,075	6,933
Finance costs		–	–
Profit before taxation	4	2,075	6,933
Income tax		–	–
Profit for the period		2,075	6,933
Gain on disposal of assets classified as held for sale		189	–
Profit for the period from discontinued operation		2,264	6,933

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2011

15. DISPOSAL OF SUBSIDIARIES

On 23 August 2011, the Company entered into a conditional sale and purchase agreement to dispose of its entire equity interest in the Jumbo Profit Investments Limited and World Target International Limited (the "Disposal Group") to an independent third party at a consideration of HK\$33,000,000. The principal activities of the Disposal Group are property development and securities trading. The disposal was completed on 23 December 2011.

Details of the net assets disposed of in respect of the Disposal Group are summarised below:

	<i>HK\$'000</i>
Net assets disposed of	
Investment properties	32,800
Securities held for trading	221
Cash and bank balances	148
Other receivables	15
Accrual and other payables	(1,760)
Tax payables	(1,730)
Deferred tax liabilities	(1,275)
	28,419
Gain on disposal of subsidiaries	4,581
	33,000
Total consideration satisfied by:	
Cash consideration received	33,000
Net cash inflow arising on disposal:	
Cash consideration received	33,000
Cash and bank balances disposed of	(148)
	32,852

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

For the six months ended 31 December 2011

16. CONTINGENT LIABILITIES

Contingent liability in respect of legal claim for office rental

On 1 September 2004, a writ of summons and statement of claim was made by The Center (49) Limited against the Company in respect of the office previously rented by the Group. The claim is for a sum of approximately HK\$3.3 million together with interest and cost. In the opinion of the Company's directors, the amount claimed is unreasonable. The Group would vigorously contest against such claim. After obtaining legal advice, a provision of approximately HK\$1.6 million has been made in the financial statements for the year ended 30 June 2004. During the six months ended 31 December 2011 and year ended 30 June 2011, there has been no significant progress. At the date of approval of these financial statements, the case is still pending for hearing.

17. COMMITMENTS

At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases in respect of the properties are payable as follows:

	31 December 2011 (Unaudited) HK\$'000	30 June 2011 (Audited) HK\$'000
Within 1 year	180	80

Neptune Group Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 31 December 2011

18. MATERIAL RELATED PARTY TRANSACTIONS

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

Transactions with key managements personnel

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

	Six months ended 31 December	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Short-term employee benefits	1,110	1,128
Post-employment benefits	26	29
	1,136	1,157

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.

19. COMPARATIVE FIGURES

As a result of the classification of the operation of cruise ship leasing to discontinued operation, certain comparative figures have been adjusted to conform with current year's presentation.

20. SUBSEQUENT EVENTS

In January 2012, the call option in relation to the purchase of 70% equity interest in Base Move Investments Limited ("Base Move") held by the Company lapsed and, as a result, the Group lost the control over Base Move thereafter. Before the lapse of the call option, the call option provided the Group with the potential voting rights over Base Move and Base Move was consolidated as a subsidiary. At the date of the loss of control over Base Move, it was accounted for as a disposal of the entire interest in Base Move and the retained 20% equity interest in Base Move was accounted for as interest in an associate.

On 12 January 2012, the Company entered into a conditional sale and purchase agreement to acquire additional 10% of the equity interest in Base Move from an independent third party at a consideration of HK\$108,000,000. Up to the date of these financial statements, the acquisition was not completed.