

Cultivating Brands · Embracing Technological Advancement



# JACOBSON PHARMA CORPORATION LIMITED

Incorporated under the laws of the Cayman Islands with limited liability

Stock Code : 2633



Interim Report 2017

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Sum Kwong Yip, Derek  
(Chairman and Chief Executive Officer)  
Mr. Yim Chun Leung  
Ms. Pun Yue Wai

### Non-executive Director

Professor Lam Sing Kwong, Simon

### Independent Non-executive Directors

Dr. Lam Kwing Tong, Alan  
Professor Chow Hee Lum, Albert  
Mr. Young Chun Man, Kenneth

## AUDIT COMMITTEE

Mr. Young Chun Man, Kenneth (Chairman)  
Dr. Lam Kwing Tong, Alan  
Professor Chow Hee Lum, Albert

## REMUNERATION COMMITTEE

Dr. Lam Kwing Tong, Alan (Chairman)  
Mr. Young Chun Man, Kenneth  
Ms. Pun Yue Wai

## NOMINATION COMMITTEE

Professor Chow Hee Lum, Albert (Chairman)  
Dr. Lam Kwing Tong, Alan  
Mr. Young Chun Man, Kenneth  
Mr. Yim Chun Leung

## AUTHORISED REPRESENTATIVES

Mr. Yim Chun Leung  
Ms. Wu Lai King

## COMPANY SECRETARY

Ms. Wu Lai King

## REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
PO Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## CORPORATE HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2313-18, 23/F  
Tower 1, Millennium City 1  
388 Kwun Tong Road  
Kwun Tong, Kowloon  
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company  
(Cayman) Limited  
Cricket Square  
Hutchins Drive  
PO Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## HONG KONG LEGAL ADVISOR

Shearman & Sterling

## AUDITOR

KPMG

## COMPLIANCE ADVISOR

Altus Capital Limited

## PRINCIPAL BANKERS

Standard Chartered Bank  
The Hongkong and Shanghai Banking  
Corporation Limited  
China Construction Bank (Asia)  
Corporation Ltd.

## PUBLIC RELATIONS CONSULTANT

Strategic Public Relations Group

## STOCK CODE

2633

## COMPANY WEBSITE

[www.jacobsonpharma.com](http://www.jacobsonpharma.com)

## LISTING DATE

21 September 2016

## FINANCIAL HIGHLIGHTS

	Six months ended	Six months ended	Change
	30 September 2017	30 September 2016	
	HK\$'000	HK\$'000	
Revenue			
– Generic Drugs	542,225	506,617	+7.0%
– Proprietary Medicines	121,183	68,832	+76.1%
– Wholesale and Retail	79,624	–	N/A
<b>Total</b>	<b>743,032</b>	<b>575,449</b>	<b>+29.1%</b>
Gross profit	278,904	244,612	+14.0%
Gross profit margin (%)	37.5%	42.5%	
Profit attributable to shareholders of the Company	80,329	57,052	+40.8%
Profit margin attributable to shareholders of the Company (%)	10.8%	9.9%	
Adjusted EBITDA (1)	166,243	129,411	+28.5%
Adjusted EBITDA margin (%) (2)	22.4%	22.5%	
Return on equity (%) (3)	9.2%	9.2%	

	As at	As at	Change
	30 September 2017	31 March 2017	
	HK\$'000	HK\$'000	
Total assets	3,066,785	2,970,067	+3.3%
Total liabilities	1,224,801	1,197,749	+2.3%
Total equity	1,841,984	1,772,318	+3.9%

(1) Adjusted EBITDA is calculated based on adjusted earnings before interest, taxes, depreciation and amortisation, where “interest” is regarded as including interest income and interest expenses and “depreciation and amortisation” is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group’s earnings are further adjusted for non-recurring items not attributable to the operations of individual segments.

(2) Adjusted EBITDA margin is calculated based on adjusted EBITDA divided by revenue and multiplied by 100%.

(3) Return on equity is calculated based on annualised profit for the period divided by the arithmetic mean of the opening and closing balances of total equity in the relevant period and multiplied by 100%.



# LETTER TO SHAREHOLDERS

## Dear Shareholders,

In the first half of FY2018, the Group maintained healthy business momentum and executed the necessary growth strategies in line with our original plans and schedule. Business growth has been driven by our relentless commitment towards its mission and values to center on building both operational and functional excellence, as well as maximizing the collaborative effort of our specialist human resources.

Underpinning the financial results in the period under review is a continued focus for the key growth drivers, encompassing first-to-opportunity generics like losartan and mesalazine and proprietary brands like Po Chai Pills, Ho Chai Kung and Shiling Oil.

Losartan saw a staggering growth of over 87.5% in the relevant period, and proprietary medicines such as Po Chai Pills, Ho Chai Kung and Shiling Oil altogether contributed a robust revenue growth of 76.2% versus same period last year. Branded generics with specialized formulation and unique composition such as bisacodyl suppository continued to perform well realizing a year-on-year growth of 29.6%.

As a major player in developing and delivering generic medicines in Hong Kong, Jacobson has a comprehensive offering in terms of product portfolio and value-added customer service. To advance our sales and marketing competence, we have successfully implemented the first phase of a highly regarded customer relationship management tool, a versatile platform developed by the globally renowned specialist *Salesforce.com*. The tool serves to provide updated market intelligence to our sales personnel who transform the information into an effective, forward-thinking strategy.

Steady progress has been made through the integration of businesses acquired in the last financial year, along with a cost rationalization program aiming to derive over HK\$20 million annual savings on headcount and non-headcount related overheads across the Group. New organizational structures are in place and all priority integration initiatives have been implemented.

## Prospect

1. With delivery of a solid result in the first half of FY2018, particularly from the major growth drivers, we remain adamantly positive that Jacobson will continue to be uniquely positioned as a domestic leader in generics and proprietary medicines. We aim to increase contribution from the recurring revenues alongside an effective cost and synergy management. Jacobson are making headway with both our product pipeline and business development. We have launched the antiviral drug lamivudine in the first half of FY2018 and are positive that it will gain a strong foothold in the public sector. For the remainder of the year, we are focused on implementing the commercial launches of a number of generics including some blockbuster molecules such as atorvastatin, rosuvastatin, ezetimibe and trimetazidine modified release. This will add impetus to Jacobson for sustaining our leadership position in the cardiovascular market segment.
2. Jacobson will continue to take a measured and disciplined approach to R&D investment and capital allocation whilst expecting further progress with its development pipeline, offering potential value through multiple licensing opportunities on both generic drugs as well as biopharmaceuticals. For generics, the in-licensing will be focused on the fast-growing therapeutic classes such as anti-viral and cardiovascular drugs. For biopharmaceuticals, we intend to target the biologics market, which has witnessed robust growth over the years. Several biologics have global sales of more than US\$1 billion annually, and many of these molecules such as trastuzumab, rituximab and infliximab will see their patents expiring in subsequent years. Although there are immense technical challenges and regulatory hurdles that we must surpass before entering into this market, the opportunities for financial gain ahead are considerably buoyant. The sales of biologics in Hong Kong amounted to over HK\$1 billion in 2016 and are expected to grow rapidly in coming years.
3. Furthering our business development, we continue to expand our footprints in certain strategic markets in Asia, entering into a collaborative framework agreement with strategic partners in Taiwan and Cambodia. Business development in the form of forging strategic partnership with local players in certain emerging markets will be actively pursued. The recent signing of a mutual trade agreement between HKSAR and ASEAN countries will certainly make the sentiment conducive for expanding business opportunities.
4. To sustain a lean and cost efficient operation across all business units of the Group, we are driving a productivity enhancement program through product consolidation, process streamlining and automation. A synergy and savings roadmap has been drawn out and implemented with a three-year timeline to come to fruition.
5. Concerning proprietary medicines, active dialogue and positive progress are underway within the sales development of Po Chai Pills, Flying Eagle Woodlok Oil and Ho Chai Kung in export markets including China, Vietnam and Myanmar. We expect to see tangible development both on geographical reach and sales expansion during the remainder of the year, with a view to bulking up the market presence of our proprietary medicines brands.

## Appreciation

We are pleased to garner the trust and support of two renowned financial investors, namely Dignari and Hillhouse, for their subscription of our 3-year convertible notes in an aggregate principal amount of HK\$500 million at an initial conversion price of HK\$2.50 per conversion share in September 2017. We appreciate their vote of confidence in our business strategies as well as our forward growth prospects.

Last but not least, I wish to thank our shareholders, customers and business partners for their unwavering support and trust being placed upon the Company and the management over the years. I would also like to extend my gratitude to my fellow directors and our employees for their total dedication.

Sincerely,

**Sum Kwong Yip, Derek**

*Chairman and CEO*

**JACOBSON PHARMA CORPORATION LIMITED**

Hong Kong, 22 November 2017



# CORPORATE VISION AND MISSION



## OUR VISION

At Jacobson, we aspire to be a leading company in generic drugs and proprietary medicines in Asia Pacific and beyond.

## OUR MISSION

We strive to create sustainable values that meet current and future customer needs through carefully-orchestrated investment in R&D.

We enhance the communities in which we operate.

We build shareholder values in all we do.

## OUR CULTURE

Three core components i.e. Challenge, Connect, Commit unite our corporate culture and values that define how we act and what we do:

### Challenge

We proactively venture into uncharted turf for exploring opportunities. We go extra-mile for attaining excellence via innovative solutions.

### Connect

We work cohesively as one company one team to create and share best practices. We connect local knowledge with global resources.

### Commit

We deliver on what we promise. We do not compromise on quality and integrity.

# CORPORATE PROFILE

The Group is the largest generic drugs company in Hong Kong representing over 30% share of the total generic drugs market in Hong Kong for each year since 2012. In terms of revenue, the Group was larger than that of the next two providers combined in 2015. For each year since 2012, the Group has been the largest provider of generic drugs to the public sector in Hong Kong, accounting for over 70% of their annual purchase of generic drugs for each respective year. The Group is also the largest provider of generic drugs in Hong Kong in the private sector with over 20% share in revenue term. (Note) The Group achieved its pre-eminent market position as a result of its leadership in a number of therapeutic categories, as well as in distribution, product development and drug manufacturing.

The Group's proprietary medicines portfolio currently comprises brands including Po Chai Pills (保濟丸), Ho Chai Kung Tji Thung San (何濟公止痛退熱散), Tong Tai Chung Woodlok Oil (唐太宗活絡油), Flying Eagle Woodlok Oil (飛鷹活絡油), Saplingtan (十靈丹), Shiling Oil (十靈油) and Col-gan Tablet (傷風克). All these brands carry a high recognition amongst the consumers and enjoy a strong market position thus creating sustainable synergies for marketing and distribution resources under the management of the Group.

## COMPETITIVE STRENGTHS

- **LEADERSHIP IN A DIVERSE RANGE OF GENERIC DRUGS AND THE OVERALL GENERIC DRUGS MARKET IN HONG KONG**

Over a long and successful track record, we have built a comprehensive product portfolio, including respiratory, cardiovascular, central nervous system, gastrointestinal, scar treatment and oral anti-diabetics. Being the largest generic drugs company in Hong Kong and by leveraging on such pre-eminent platform, we have also cemented our position as the leader in a number of large and fast-growing therapeutic categories in the Hong Kong pharmaceutical market.

- **HIGHLY RECOGNISED AND WIDELY CARRIED PROPRIETARY MEDICINES**

We own, manufacture and distribute a portfolio of leading proprietary medicines. Based on our deep familiarity with the market, strong technical support and disciplined brand management, we have been able to grow revenues, enhance manufacturing capabilities and increase market coverage for the proprietary medicine brands we have acquired.

- **LEADING RESEARCH AND DEVELOPMENT CAPABILITIES THAT CAN DEVELOP PREMIUM GENERIC DRUGS TO FULFILL UNMET DEMANDS**

We are the leading pharmaceutical research and development company in Hong Kong among generic drugs manufacturers in terms of number of new drugs registered in the past few years. We have been able to identify products with good potential based on our strong relationships with customers and deep market insight. We are the only generic drugs supplier with active and on-going production activities in a number of pharmaceutical dosage forms in Hong Kong, including suppositories, enemas, sterile eye drops and injectables.

- **WELL-ESTABLISHED SALES AND DISTRIBUTION NETWORK COVERING SUBSTANTIALLY ALL SECTORS OF THE MARKET**

We have extensive market penetration, covering substantially all of the public and private sector institutions and registered pharmacies, as well as over 1,000 doctors in private practice. Our deep industry knowledge, extensive sales network and close interactions with market participants enable us to gather significant feedback, relevant market intelligence and data on industry trends for further strengthening our product development strategies and identifying business opportunities.

*Note: source: Frost & Sullivan (Beijing) Inc, Shanghai Branch Co.*





# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### GENERIC DRUGS

Our concerted efforts on the continued enhancement of sales productivity, product portfolio and customer base in both public and private sectors remain the contributing factors for the steady and positive growth of our generics segment. The Group recorded sales of HK\$542.2 million for its generic drugs business, representing a growth of 7.0% for the first six months period ended 30 September 2017 as compared to the same period of last year.

Correspondingly, the revenue from public sector registered a growth of 7.9% to HK\$184.2 million with new tenders awarded during the reporting period, as compared to HK\$170.7 million for the same period in 2016. On the other hand, the private sector posted a revenue growth of 6.6% to HK\$358.0 million as compared to HK\$335.9 million for the same period in 2016.

Attributable to the increased prevalence of chronic diseases as well as the escalating aged population, sub-sector markets such as those for gastrointestinal, cardiovascular and central nervous system treatments are forecast with a robust and sustained growth. For the private sector, gastrointestinal and cardiovascular products recorded sales growth of 19.3% and 17.8% respectively as compared to the same period in 2016, which can be attributed to a sales growth of antiulcerants (21.6%) and antihypertensives (23.7%). As a pre-eminent leader in generic medicines in Hong Kong, the Group has been taking a strong market position in a number of the therapeutic categories, actively introducing new products under its R&D pipeline in order to tap into the high growth segments.

Our newly registered products during the reporting period included major off-patent drugs such as rosuvastatin, irbesartan and telmisartan of the cardiovascular class, quetiapine of the central nervous system class and entecavir and lamivudine/zidovudine combination products of the antiviral class which altogether will add impetus to our drive for further growth of market shares in the generics segment, especially for the public sector. The recent launch of losartan witnessed a robust sales growth of 87.5% during the reporting period. We have also been awarded new tenders for the supply of zolpidem to public sector.

Confronted by the rise of aging population and prevalence of chronic diseases, Hong Kong's public healthcare system is significantly overstretched and placing a severe strain on resources. Government funding has been allocated to the Elderly Health Care Voucher Scheme; the individual elderly patient is awarded an annual voucher of HK\$2,000 for both curative and preventive care causing growth in healthcare spending in this segment. As a consequence, an increasingly austere approach has been adopted towards publicly funding drugs with the encouragement of generic drugs use. A pilot program launched by the government diverts eligible patients with hypertension and/or diabetes mellitus who have been attending public outpatient clinics to private doctors under a subsidized scheme of consultation for both chronic and episodic illnesses. The program will offer greater choice and convenience for participating patients accessing primary healthcare services upon full implementation between 2018 and 2019. As the leading generic drugs supplier to both the public and private sectors, the Group is well positioned to tap such market opportunities and further strengthen its product penetration into both sectors.

With the strategy set to replicate its success in Hong Kong, the Group continued to foster its effort on developing the market in Macau, leveraging its leadership position and comprehensive product offerings. A subsidiary office and a dedicated on-the-ground sales team have been established to increase direct selling of a broad portfolio of products to doctors and dispensaries, thus maximizing our market presence.

On the front of the continued enhancement of our sales competence, efficiency and operational excellence, we have completed the first phase development of a mobile customer relationship management (CRM) system developed by a leading provider *Salesforce.com*. The new system was successfully implemented in September 2017. Backed by cloud computing technology, this new system not only enhances the efficiency of sales ordering and shortens goods delivery cycle but also equips our sales force with customer data, thereby fostering greater depth of market intelligence.

### Production Capacity

We have made encouraging progress on streamlining our production processes and projects among the Group's manufacturing facilities. During the reporting period, the Group's total production output of three major product dosage forms (solid, semi-solid and liquid) respectively registered positive growth of 17.3% to 1,341 million tablets and capsules, 37.0% to 135 tons and 4.9% to 1,373 kilo-liters as compared to corresponding period of 2016.

Designed for the significant enhancement of the Group's production capacity on solid and liquid dosage forms, our new manufacturing plant at Synco (H.K.) Limited, equipped with advanced and high throughput PIC/S GMP compliant facilities, has commenced operation since September last year. The output of solid dosage form of the new plant during the reporting period accounted for 19.1% of the Group's total annual output of solid dosage form. We expect the percentage will be further increased with more products transferred to the new production facilities.

In addition, our newly acquired business unit, Medipharma, which contributed 18.1% and 13.4% of the total output of semi-solid dosage and liquid dosage forms of the Group respectively, has also significantly increased the Group's production capacity as well as market share for the two dosage forms.

We are the only generic drugs supplier with active and on-going production activities in a number of pharmaceutical dosage forms in Hong Kong including sterile eye drops, suppositories and enemas. Under the new PIC/S certified sterile eye drops production facilities, a total of 2.4 million bottles of eye drops were produced and supplied to the market during the reporting period. These new facilities will augment our production capacity of sterile eye-drops by one hundred percent.

Ho Chai Kung Group and Medipharma, our two newly acquired business units which hold independent production facilities in various dosage forms, additionally help to strengthen the Group's manufacturing capacity on specified formulations, and furthermore enrich its product portfolio to cope with the various needs of both the OTC (over-the-counter) and GP (general practitioner) market segments. Moreover, some popular products under the new acquisitions have been planned for relaunch in the near future including a series of specialised anti-flu formulations, to further unlock the value of the acquired businesses.

## PROPRIETARY MEDICINES

With relentless commitment towards further establishing its proprietary medicines portfolio, the Group continued to enhance brand management, marketing and sales of our proprietary medicines business and expansion of its sales platform in Hong Kong, China, and Asia Pacific regions.

During the reporting period, the total revenue from the proprietary medicines segment of the Group amounted to HK\$121.2 million, representing a 76.2% increase as compared with HK\$68.8 million for the corresponding period of 2016.

Persistent marketing and brand building efforts have proven positive results. The sales revenue of Po Chai Pills in Hong Kong posted a growth of 8% and 7% in trade and chain stores respectively compared to its corresponding period of 2016.

Puji Pills, with its newly secured OTC (over-the-counter) classification status, has been re-launched in the China market under new strategic distribution agreements with two reputable distributors in Guangdong and Yunnan provinces. Related market and business development activities have been actively carried out by leveraging the high brand awareness of Puji Pills and the extensive distribution network and experience of our distribution partners. With the picking up of sales momentum in China, Puji Pills contributed HK\$7.4 million in sales during the reporting period.

The Group continued its drive to explore and expand market coverage in strategically selected markets in Asia including Taiwan, Vietnam, Cambodia, and Myanmar. With respect to this, active dialogue and good progress have been made on the sales development of Po Chai Pills and Flying Eagle Woodlok Oil. We have completed the evaluation of the different local registration requirements for Po Chai Pills and will soon proceed with the filing of applications in the above markets.

Ho Chai Kung, the household brand that the Group acquired in January 2017 which enjoys a strong market position in the analgesics category in the Hong Kong, China and South-East Asia markets, achieved a contribution of HK\$45.2 million in revenue to our proprietary medicines business during the reporting period.

Shiling Oil, a well-recognised proprietary medicines brand that we acquired in March 2017, has completed the transfer of its product licenses to our existing plant and resumed normal production, contributing HK\$3.4 million in sales revenue during the reporting period. Along with Saplintan, a new marketing campaign for the household brands will be launched to reinforce their brand presence in the market.

## PRODUCT DEVELOPMENT

The Group takes a measured and disciplined approach to R&D with a focus on specialised formulations.

With effective management, our R&D has made steady progress in various projects. During the reporting period, we have an addition of 18 newly selected products to supplement our R&D pipeline. A total of 8 products were successfully registered during the reporting period which are ready for launch and supply in Hong Kong. Two other new products have completed the development process and testing and been submitted for approval by the Department of Health. In addition, 22 products have also finished the formulation development process and are currently undergoing stability studies and tests ready for registration filing in about 6 months at the date of this report.



## R&D COLLABORATIONS

During this period, we are also making good progress on several collaboration projects with local and overseas R&D institutions.

### Collaboration Project with Hong Kong Institute of Biotechnology (HKIB)

The collaboration project with HKIB for “Real-time Monitoring and End Point Determination of Pharmaceutical Powder Blending in Both R&D and Manufacturing by Near-Infrared Spectroscopic (NIRS) Technology” was kick-started in March 2017. This is a government-funded research project for real-time quality control of manufacturing process, being a new pharmaceutical production technology in Hong Kong, largely enhancing the product quality and efficiency of the manufacturing process.

### Collaboration with Nano & Advanced Materials Institute Limited (NAMI)

The collaborative research project with NAMI on “Novel Nanoparticles for Pre-clinical Diagnosis for Early Alzheimer Detection and Drug Development” has achieved encouraging progress and recognition since its launch in June 2016 with the winning of the Gold Medal Award at the 45th International Exhibition of Inventions of Geneva.

Thanks to the success of this project, a newly commercialized product patent-filed and trademarked as “NanoAZD™” was launched in April 2017. The product was first promoted at the Alzheimer’s Association International Conference in London in July 2017 and received encouraging feedback; recognized for its potential on human applications because of the technological breakthroughs and its safe nature.

Besides the product’s application as a contrast agent for new drugs development for Alzheimer’s disease, we are also actively exploring the different modes of collaboration with potential research partners for effectively proceeding with the clinical studies of the product. We are positive about its market prospects, gaining a unique position in the market.

## REMUNERATION POLICY

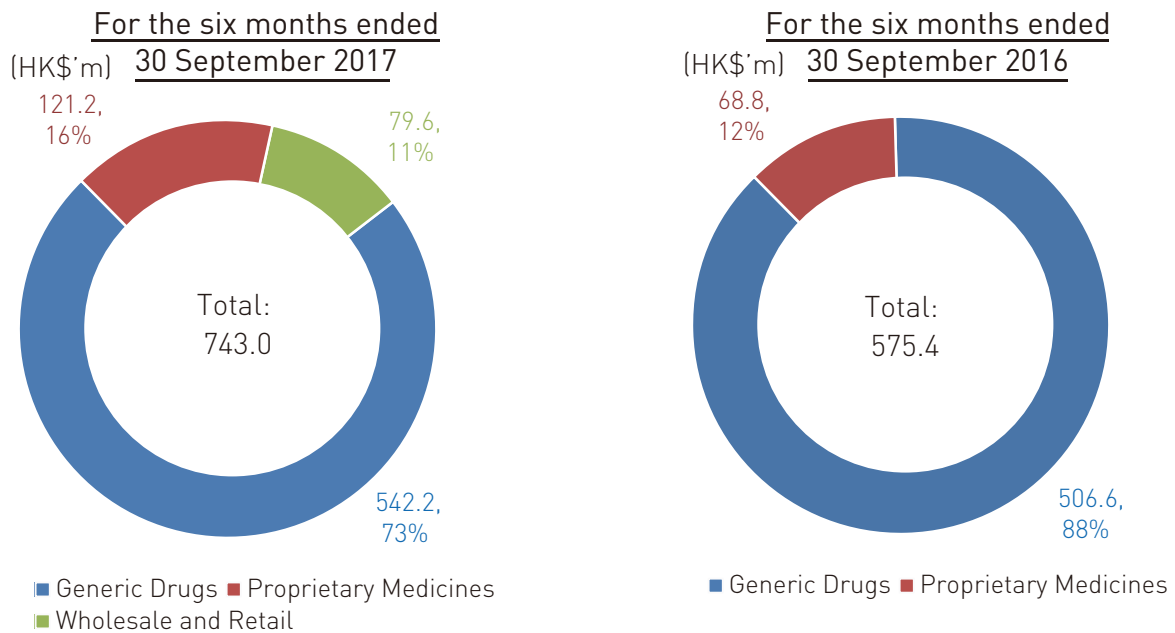
As of 30 September 2017, the Group had a total of 1,910 employees. For the reporting period, the total staff cost of the Group was HK\$212.5 million as compared to HK\$175.2 million for the six months ended 30 September 2016. All the Group’s employees have entered into standard employment contracts with the Group. Remuneration packages for the Group’s employees in general comprise one or more of the following elements: basic salary, productivity-related incentives and work performance-related bonus. The Group sets out performance attributes for its employees based on their positions and departments. It periodically reviews their work performance against the Group’s targets and requirements. The results of such reviews are used in salary adjustments, bonus awards, promotion justifications and training need analysis. The Group offers various benefit plans to its employees including top-up annual leave entitlement, pension fund, medical insurance and life insurance. Union has been established for the Group’s employees in China according to local labour laws. As of 30 September 2017, the Group did not experience any strikes or any labour disputes with its employees which would have or likely to have a material effect on its business.

The Group places high values on recruiting, developing and retaining its employees. It maintains high recruitment standards, provides competitive compensation and benefit packages. The Group also emphasizes on training and developing employees. In addition to different skill and knowledge based in-house training programs, the Group has training sponsorship policy to encourage its employees to attend external training for enhancing their job competencies.

## FINANCIAL REVIEW

### REVENUE

#### Revenue by Operating Segments



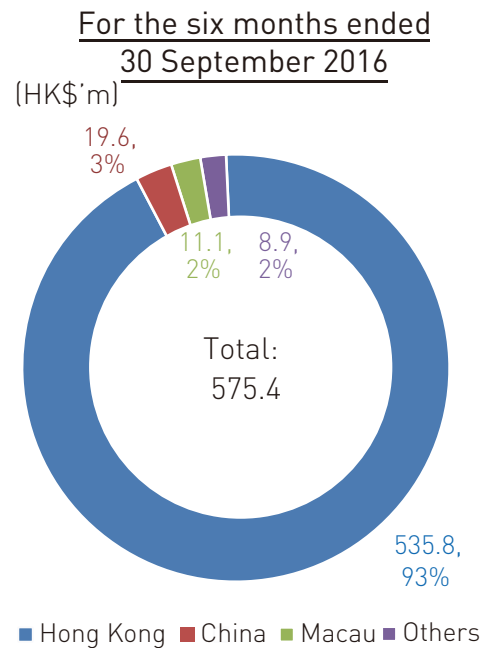
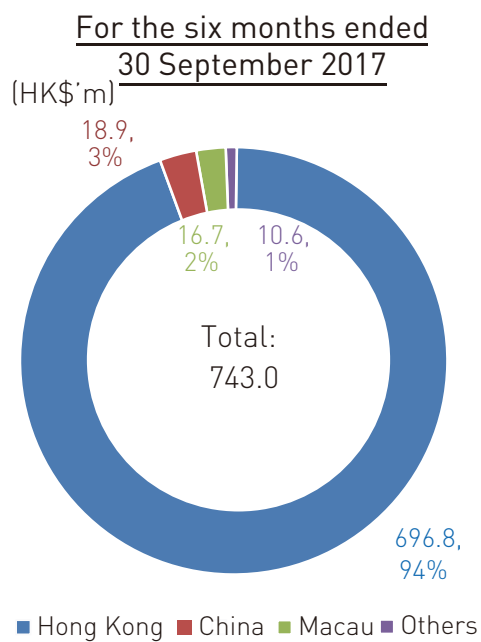
The increase in revenue of HK\$167.6 million or 29.1% compared to FY2017 Interim was contributed by the increase in revenue of HK\$35.6 million in Generic Drugs, HK\$52.4 million in Proprietary Medicines as well as HK\$79.6 million from the new Wholesale and Retail segment. Revenue split of the three segments is at the ratio of 73%, 16% and 11%.

In Generic Drugs segment, the increase in revenue reflected the higher revenue from both public sector and private sector, amounted to HK\$13.5 million and HK\$22.1 million respectively. The growth of revenue in public sector was primarily attributed to the rise of demand in oral anti-diabetic and cardiovascular products along with the contributions from newly awarded tenders and the acquired products from Medipharma. The growth in private sector mainly reflected the rise in average selling price as well as the additional revenue from the acquisition of Medipharma.

In Proprietary Medicines segment, the increase in revenue was mainly contributed by the sales of Ho Chai Kung brand products, amounted to about HK\$45.2 million as well as the strengthening of sales of Po Chai Pills and Tong Tai Chung Woodlok Oil.

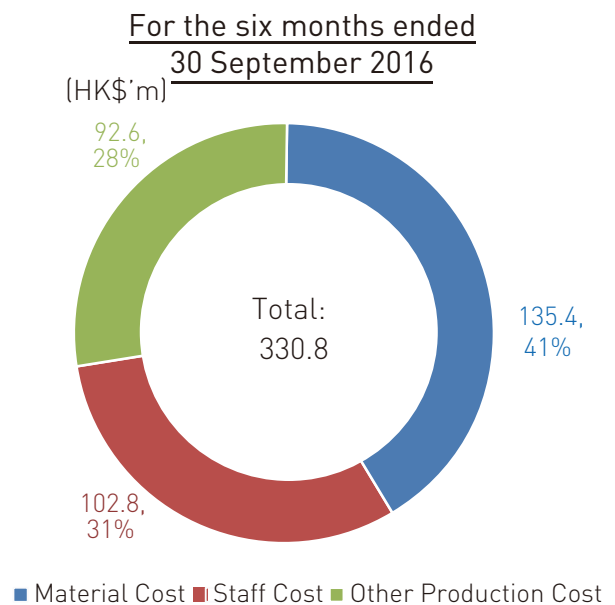
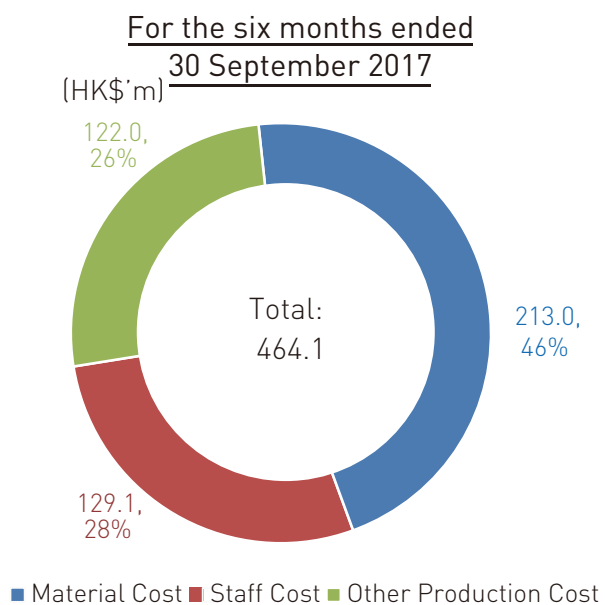


## Revenue by Geographic Location



Hong Kong continued to be the major revenue stream, representing 94% of the total revenue and contributed an increase in revenue of HK\$161.0 million. The slight increase in revenue from other overseas market was mainly due to the increase in export sales in USA which was offset by the decrease in sales in the Indonesia.

## Cost of Goods Sold

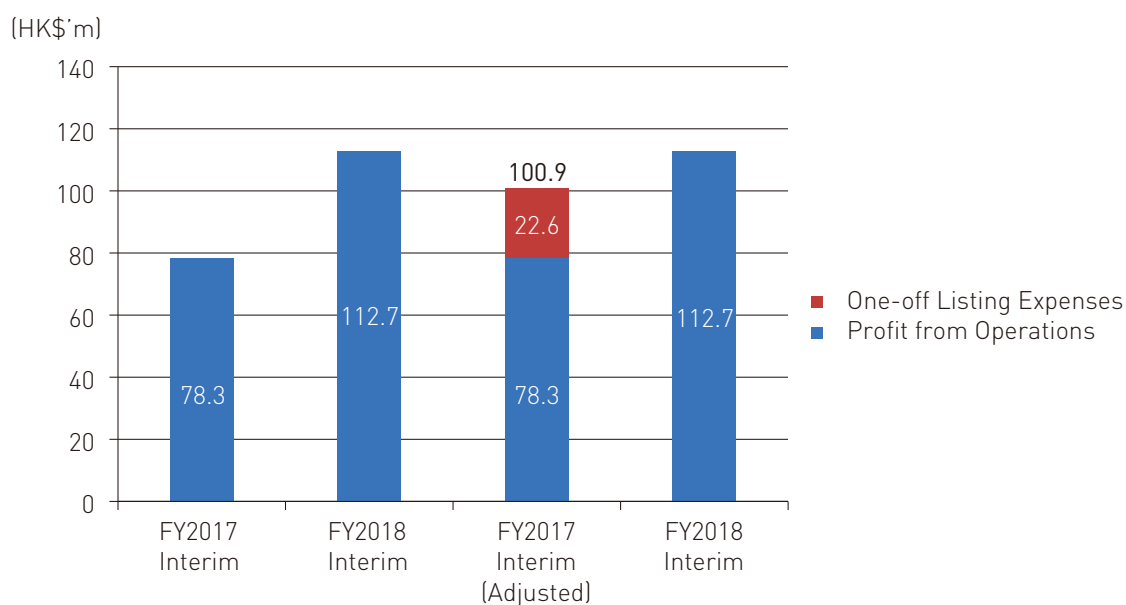


Material cost continued to be the major component in the cost of goods sold which contributed to approximately 46% of the total cost of goods sold. The increase reflected the addition of a new segment of Wholesale and Retail.

The increase in staff cost of HK\$26.3 million or by 25.6% reflected the increase in number of headcount primarily due to acquisitions made in the latter half of the previous financial year and the commencement of production at the new manufacturing plants in Tai Po Industrial Estate in September 2016.

The increase in other production cost reflected mainly the additional depreciation and amortisation as well as the use of consumables arising from the commencement of the production at the new manufacturing plant and acquisitions.

### Profit from Operations



The profit from operations excluding one-off listing expenses ("adjusted profit from operations") rose from HK\$100.9 million to HK\$112.7 million or by HK\$11.8 million or 11.7%. The enhancement in the profit from operations was principally contributed by the increase in gross profit of HK\$34.3 million while offset by the increase in selling and distribution expenses and administrative and other operating expenses by HK\$11.4 million and HK\$10.7 million respectively.

The increase in selling and distribution expenses and administrative and other operating expenses are mainly due to the acquisitions made in the latter half of the previous financial year and in the reporting period as well as the amortisation of share options value during the reporting period.

### Finance Costs

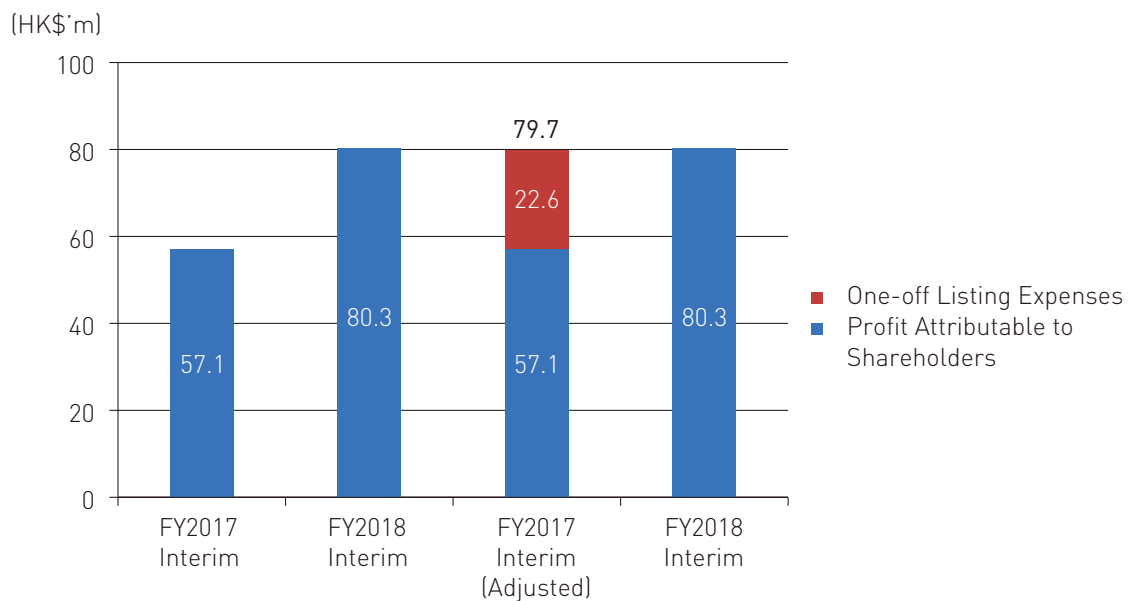
The increase in finance costs mainly reflected the increase in bank loan balances as well as the effect of cessation of interest capitalisation due to the completion of the construction of new plant in Tai Po Industrial Estate after its commencement of production.

### Income Tax

The increase in income tax principally reflected the higher profit before taxation generated. The reduction in effective tax rate was due to non-deductible listing expenses incurred during FY2017 Interim.



## Profit Attributable to Shareholders



The increase in profit attributable to shareholders reflected the increase in profit from operations offset by the additional finance costs. The adjusted profit attributable to the shareholders increased by HK\$0.6 million or by 0.8% to HK\$80.3 million.

## Assets

### Property, Plant and Equipment

The decrease in property, plant and equipment principally reflected the depreciation of HK\$42.8 million and offset by the additions of HK\$33.7 million during the reporting period.

### Intangible Assets

The increase in intangible assets reflected principally the intangible assets recognised as a result of the acquisition of Hong Ning Hong Group during the reporting period.

### Inventories

The increase in inventories mainly represented respective inventories being consolidated after the acquisition of Hong Ning Hong Group as well as the increase in inventories following the enhancement of production capacity.

### Cash and Cash Equivalents

As at 30 September 2017, around 59.0% of cash and cash equivalents were denominated in Hong Kong dollars (as at 31 March 2017: 98.9%), while the remaining balances were denominated in United States dollars, Renminbi and Singapore dollars.

## Liabilities

### Bank Loans

The increase in bank loans from HK\$937.5 million as at 31 March 2017 to HK\$949.1 million as at 30 September 2017 represented additions of bank loans principally for merger and acquisition and capital investment while offset by certain settlements of bank loans during the reporting period.

As at 30 September 2017 and 31 March 2017, all the bank loans of the Group were denominated in Hong Kong dollars.

## USE OF PROCEEDS

Net proceeds of HK\$695.5 million were raised from the initial public offering of the Company (included proceeds from the over-allotment option exercised by the underwriter amounted to HK\$98.4 million and after the deduction of underwriting fees, commissions and expenses paid by us in connection with the initial public offering). The following table sets out the proposed application of the net proceeds and the actual usage up to 30 September 2017:

	Proposed application HK\$'000	Actual usage up to 30 September 2017 HK\$'000
Acquisitions – Expansion of businesses in Generic Drugs and Proprietary Medicines	139,108	<b>138,933</b>
Acquisitions – Enhancement of distribution network	104,331	<b>8,000</b>
Acquisitions – Intangible assets	69,554	<b>69,000</b>
Capital investments – Upgrading of manufacturing plants and facilities	113,197	<b>101,300</b>
Capital investments – Two specific automated production facilities	12,000	<b>12,000</b>
Advancement on product development and research capabilities	94,331	<b>10,816</b>
Establishment of a new joint R&D centre with HKIB	10,000	<b>1,533</b>
Marketing and advertising	83,465	<b>31,709</b>
General working capital	69,554	<b>61,437</b>
	695,540	<b>434,728</b>

## LIQUIDITY, CAPITAL RESOURCES AND CAPITAL STRUCTURE

The Group consistently adheres to conservative fund management. The solid capital structure and financial strength continue to provide a solid foundation for the Group's future development.

The Group's primary uses of cash are to fund working capital and capital expenditures. During the reporting period, the Group funded its cash requirements principally from cash generated from operations and funds raised from the Listing and bank borrowings.

## SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any material acquisitions or disposals after the reporting period.

## CHARGE ON GROUP ASSETS

The carrying value of assets pledged against bank loans increased from HK\$409.3 million as at 31 March 2017 to HK\$466.9 million as at 30 September 2017, which was mainly due to investment properties acquired during the reporting period amounted to HK\$56.0 million were pledged for bank loans to facilitate related acquisitions.

## NET GEARING RATIO

The net gearing ratio of the Group (bank loans less cash and cash equivalents, divided by total equity multiplied by 100%) increased slightly from 32.6% as of 31 March 2017 to 33.8% as of 30 September 2017.

## FINANCIAL RISK ANALYSIS

Management considered that the Group did not have significant exposure to fluctuation in exchange rates and any related hedges.

## CONTINGENT LIABILITIES

As of 30 September 2017, the Group did not have any significant contingent liabilities.





## NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

### CONVERTIBLE NOTES:

On 6 September 2017, the Company entered into subscription agreements with two subscribers, namely Dragons 615 Limited and HH InRe JP, Ltd., and pursuant to which subscribers have agreed to subscribe for 3.5% convertible notes due 2020 in an aggregate principal amount of HK\$500 million at an initial conversion price of HK\$2.50 per share ("Convertible Notes"). The Company completed the issuance of the Convertible Notes on 3 October 2017.

Dragons 615 Limited is wholly-owned by DCP China Credit Fund I, L.P., which in turn is funded by renowned international institutional investors and a Singapore sovereign fund which is a wholly-owned subsidiary of Temasek Holdings. HH InRe JP, Ltd. is indirectly wholly-owned by Hillhouse InRe Fund, L.P.

For details, please refer to the announcements of the Company dated 6 September 2017 and 3 October 2017.

### SHARE OPTIONS:

On 18 October 2017, pursuant to the share option scheme adopted by the Company on 30 August 2016, the Company granted 1,000,000 share options to the grantee to subscribe for 1,000,000 ordinary shares of HK\$0.01 each of the Company at an exercise price of HK\$2.13 per share. For details, please refer to the announcement of the Company dated 18 October 2017.

## PRINCIPAL RISKS AND UNCERTAINTIES

The following is a summary of the principal risks and uncertainties identified by the Company which may have material and adverse impact on its business or operation, and how the Company endeavours to manage the risks involved. There may be other principal risks and uncertainties in addition to those shown below which are not known to the Company or which may not be material now but could turn out to be material in the future.

- The Group operates in pharmaceutical manufacturing industry and is subject to various regulations; failure to comply with pharmaceutical or other regulations may restrict our business operations. The Group has dedicated quality control and quality assurance team in each manufacturing plant to ensure compliance with relevant regulations.
- The Group made a number of successful acquisitions; however the Group may not be able to successfully identify, consummate and integrate future mergers or acquisitions. The Group will continue to seek for new acquisition opportunities and perform adequate due diligence to assess the potential acquisition targets.
- The Group operates in generic drugs business and development of new products provides additional growth driver for the Group. However, we may not be able to develop and launch new product according to our schedule. The Group continues to invest in the research and development of new products and engage external experts to enhance our overall R&D capability.
- The Group is also exposed to risks of liability and loss due to defective products as well as damage to the Group's reputation. The Group has a designated production and quality assurance team to monitor product quality in each plant to ensure they are in compliance with respective specifications.

The Company believes that risk management is essential to the Group's efficient and effective operation. The Company's management assists the Board in evaluating material risk exposure in the Group's business, participating in formulating appropriate risk management and internal control measures, and ensuring its implementation in the daily operational management.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is primarily engaged in manufacturing generic drugs and proprietary medicines, a line of business that does not have any material impact on the environment. The key environmental impact from the Group's operation are related to electricity, water and paper consumption. The Group is fully aware of the importance of sustainable environmental development, and has implemented a number of measures to encourage environmental protection and energy conservation.

During the reporting period, there was no significant regulatory non-compliance with applicable environmental laws and regulations.

## COMPLIANCE WITH LAWS AND REGULATIONS

During the reporting period, the Group is in compliance with the applicable laws and regulations which have significant impacts on the Group in all material respects.



# OTHER INFORMATION

## CORPORATE GOVERNANCE HIGHLIGHTS

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as its own code of corporate governance.

During the reporting period, the Company has complied with all the code provisions of the CG Code and adopted most of the best practices set out therein, except for the following provision:

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Currently, Mr. Sum is the chairman of the Board and the chief executive officer of the Company and accordingly, there is no written terms setting out the division of responsibilities between the chairman and chief executive. The Board considers that Mr. Sum is the founder of the Group and had been managing the Group's business and overall strategic planning since its establishment, the vesting of the roles of chairman and chief executive officer in Mr. Sum is beneficial to the business prospects and management of the Group by ensuring consistent leadership within the Group and enabling more effective and efficient overall strategic planning for the Group. The Board also considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively.

The Board will continue to review and consider splitting the roles of chairman of our Board and the chief executive officer of the Company at an appropriate time, taking into account the circumstances of the Group as a whole.

On 22 November 2017, an executive committee (the "Executive Committee"), comprising all the executive Directors of the Board of the Company, was formed with specific written terms of reference setting out its authority and duties to assist the Board of the Company the discharge of their executive functions. The objective of this committee is to facilitate a more efficient day-to-day operations structure and enhance business processes of the Group and to better implement policies as directed or delegated by the Board from time to time.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions of the Directors. Having made specific enquiry with the Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the reporting period.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## AUDIT COMMITTEE

The Board has established an audit committee (the "Audit Committee") which comprises three independent non-executive Directors, namely Mr. Young Chun Man, Kenneth (Chairman), Dr. Lam Kwing Tong, Alan and Professor Chow Hee Lum, Albert. The primary duties of the Audit Committee include reviewing and supervising the Group's financial reporting process, internal control and risk management systems, preparing financial statements and internal control procedures. It also acts as an important link between the Board and the external auditor in matters within the scope of the group audit.

## REVIEW OF INTERIM RESULTS

The interim results for the six months ended 30 September 2017 are unaudited, but have been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in this interim report. The Audit Committee, together with management of the Company, has also reviewed the interim results for the six months ended 30 September 2017.

## INTERIM DIVIDEND

The Board recommends a payment of an interim dividend per ordinary share for the six months ended 30 September 2017 of HK0.9 cent for the total amount of approximately HK\$16.3 million (six months ended 30 September 2016: HK0.8 cent). The details of interim dividend of the Group are set out in note 9 of the unaudited interim financial report.

The interim dividend will be paid on 19 December 2017 (Tuesday) to shareholders whose names appear on the register of members of the Company on 28 November 2017 (Tuesday), the record date. In order to receive the interim dividend, the share transfer documents shall be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 28 November 2017 (Tuesday).

## GENERAL DISCLOSURE PURSUANT TO LISTING RULES

Pursuant to Rules 13.18 and 13.21 of the Listing Rules, the Company discloses the following information:

On 6 September 2017, the Company entered into the subscription agreements with each of the two subscribers whereby the subscribers agreed to subscribe for the 3.5% convertible notes in an aggregate principal amount of HK\$500 million due 2020 and the subscriptions for the convertible notes were completed on 3 October 2017. Based on the initial conversion price of HK\$2.50 per conversion share, a maximum of 200,000,000 shares of the Company will be allotted and issued upon exercise of the conversion rights attached to the convertible notes in full.

As the convertible notes provided, among other things, a specific performance obligation on the controlling shareholder of the Company, Mr. Sum, to maintain his status as the single largest controlling shareholder of the Company and a cessation of such status will result in a default therein.

As at the date of this interim report, the aggregate principal amount under the above convertible notes was HK\$500 million.

For details, please refer to the announcements of the Company dated 6 September 2017 and 3 October 2017.



## CHANGE OF INFORMATION ON DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes and updated information regarding the Directors of the Company since the Company's last published annual report and up to the date of this interim report are set out below:

- (a) **Mr. Sum Kwong Yip, Derek**, the Chairman of the Board, the Chief Executive Officer and an executive Director of the Company, whose annual salary, allowances and benefit in kind was revised from HK\$8,539,000 to HK\$4,093,798, and his director's fee was revised from HK\$1,818,000 to HK\$1,200,000 per annum with effect from 1 July 2017; and Mr. Sum has been appointed as a member and the chairman of the Executive Committee of the Company with effect from 22 November 2017;
- (b) **Professor Lam Sing Kwong, Simon**, a non-executive Director of the Company, whose director's fee was revised from HK\$200,000 to HK\$208,000 per annum with effect from 9 September 2017;
- (c) **Dr. Lam Kwong Tong, Alan**, an independent non-executive Director of the Company, whose director's fee was revised from HK\$200,000 to HK\$208,000 per annum with effect from 9 September 2017;
- (d) **Mr. Young Chun Man, Kenneth**, an independent non-executive Director of the Company, whose director's fee was revised from HK\$200,000 to HK\$208,000 per annum with effect from 9 September 2017;
- (e) **Professor Chow Hee Lum, Albert**, an independent non-executive Director of the Company, whose director's fee was revised from HK\$200,000 to HK\$208,000 per annum with effect from 9 September 2017; Professor Chow has retired from The Chinese University of Hong Kong with effect from 1 August 2017; and on 22 November 2017 Professor Chow has tendered his resignation as an independent non-executive Director, the chairman of Nomination Committee and a member of Audit Committee of the Company, and a member of Scientific Advisory Committee of the Company with effect from 1 December 2017 <sup>(note)</sup>;
- (f) **Mr. Yim Chun Leung**, an executive Director of the Company, has been appointed as a member the Executive Committee of the Company with effect from 22 November 2017; and
- (g) **Ms. Pun Yue Wai**, an executive Director of the Company, has been appointed as a member the Executive Committee of the Company with effect from 22 November 2017.

Note:

Professor Wong Chi Kei, Ian, on 22 November 2017, has been appointed as an independent non-executive Director of the Company, and the chairman of Nomination Committee and a member of Audit Committee of the Company with effect from 1 December 2017.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were taken or deemed to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO and the Model Code were as follows:

### (I) INTERESTS IN SHARES OF THE COMPANY

Name of Director	Capacity/Nature of Interest	Number of shares	Approximate percentage of issued share capital of the Company	Long position/ Short position/ Lending pool
Mr. Sum <sup>(1)(2)</sup>	Interests in controlled corporation Settlor of trusts Beneficiary of trusts	1,289,186,000	71.01%	Long position
Mr. Yim Chun Leung	Beneficial owner	15,350,000	0.85%	Long position
Ms. Pun Yue Wai	Beneficial owner	1,220,000	0.07%	Long position
Dr. Lam Kwing Tong, Alan	Interests of children under 18 and/or spouse	364,000	0.02%	Long position

Notes:

- Mr. Sum is the sole shareholder of The Jacobson Pharma (PTC) Limited, being the trustee of the trust established for the purpose of holding the shares under the Share Incentive Scheme. Queenshill is the settlor of such trust. By virtue of the SFO, Mr. Sum and Queenshill are deemed to be interested in the 19,702,000 shares held by The Jacobson Pharma (PTC) Limited. Mr. Sum is also the sole shareholder of Queenshill.
- UBS Trustees [B.V.] Limited, the trustee of The Kingshill Trust, holds the entire issued share capital of Kingshill Development Group Inc. ("Trust Co") through its nominee, UBS Nominees Limited. Trust Co holds the entire issued share capital of Kingshill. Kingshill in turn holds 850,684,000 shares in the Company. The Kingshill Trust is a discretionary trust established by Mr. Sum (as the settlor) with Mr. Sum and his family members as the discretionary beneficiaries (directly and through The Queenshill Trust). By virtue of the SFO, Mr. Sum, as the settlor and a discretionary beneficiary of The Kingshill Trust and The Queenshill Trust, is deemed to be interested in the 850,684,000 Shares held by Kingshill.

### (III) INTERESTS IN UNDERLYING SHARES OF THE COMPANY HELD THROUGH SHARE OPTIONS

Share options were granted to two executive Directors under the share option scheme adopted by the shareholders of the Company on 30 August 2016 (the "Share Option Scheme").

As at 30 September 2017, Directors had personal interests in the following underlying shares of the Company held through share options granted under the Share Option Scheme:

Name of Director	Capacity in which such interests were held	Number of underlying ordinary shares	Percentage of issued voting shares
Mr. Yim Chun Leung	Beneficial owner	13,500,000	0.74%
Ms. Pun Yue Wai	Beneficial owner	4,500,000	0.25%

Further details of share options granted to Directors under the Share Option Scheme are set out in the section headed "Share Option Scheme" below.

These interests in share options represented long positions in the underlying shares in respect of physically settled derivatives of the Company. Interests of the Directors, Mr. Yim Chun Leung and Ms. Pun Yue Wai, set out in this subsection (III) shall be aggregated with their respective interests in the shares of the Company set out in subsection (I) above in order to give the total interests of the Director in the Company pursuant to the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



Save as disclosed above, so far as known to any Directors as at 30 September 2017, none of the Directors or chief executive of the Company or any of their close associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which they were taken or deemed to have under such provisions of the SFO, or which were required to be recorded in the register to be kept by the Company pursuant to section 352 of the SFO, or which were required, pursuant to section 347 of the SFO and the Model Code, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2017, within the knowledge of the Directors, the following persons or corporations had or deemed or taken to have an interest or a short position in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

### (I) INTERESTS IN SHARES OF THE COMPANY

Name of Shareholder	Nature of Interest	Number of shares	Approximate percentage of issued share capital of the Company	Long position/ Short position/ Lending pool
Queenshill <sup>(1)</sup>	Beneficial owner Settlor of a trust	281,452,000	15.50%	Long position
Kingshill <sup>(2)</sup>	Beneficial owner Interest held jointly with another person	1,007,734,000	55.50%	Long position
Longjin <sup>(2)</sup>	Beneficial owner Interest held jointly with another person	1,007,734,000	55.50%	Long position
Trust Co <sup>(3)</sup>	Trust holding company	1,007,734,000	55.50%	Long position
UBS Trustees (B.V.I.) Limited <sup>(3)</sup>	Trustee	1,007,734,000	55.50%	Long position
Mr. Lau <sup>(2)</sup>	Interest in controlled corporation	1,007,734,000	55.50%	Long position
Mr. Sum <sup>(1)(3)</sup>	Interest in controlled corporation Settlor of trusts Beneficiary of trusts	1,289,186,000	71.01%	Long position

Notes:

- Mr. Sum is the sole shareholder of The Jacobson Pharma (PTC) Limited, being the trustee of the trust established for the purpose of holding the shares under the Share Incentive Scheme. Queenshill is the settlor of such trust. By virtue of the SFO, Mr. Sum and Queenshill are deemed to be interested in the 19,702,000 shares held by The Jacobson Pharma (PTC) Limited. Mr. Sum is also the sole shareholder of Queenshill.
- Kingshill and Longjin are parties acting in concert pursuant to the Deed of Acting in Concert and hence each of them is deemed to be interested in the Shares held by each others. Please refer to the section headed "Relationship with our Controlling Shareholders" of the Prospectus for further details. Kingshill is wholly-owned by Trust Co under The Kingshill Trust, a discretionary trust established by Mr. Sum (as the settlor). Longjin is owned as to 75% by Mr. Lau.
- UBS Trustees (B.V.I.) Limited, the trustee of The Kingshill Trust, holds the entire issued share capital of Trust Co through its nominee, UBS Nominees Limited. Trust Co holds the entire issued share capital of Kingshill. Kingshill in turn holds 850,684,000 Shares in the Company. The Kingshill Trust is a discretionary trust established by Mr. Sum (as the settlor) with Mr. Sum and his family members as the discretionary beneficiaries (directly and through The Queenshill Trust). By virtue of the SFO, each of Mr. Sum, UBS Trustees (B.V.I.) Limited, Trust Co and Kingshill is deemed to be interested in the 850,684,000 Shares held by Kingshill.

### (III) INTERESTS IN UNDERLYING SHARES OF THE COMPANY HELD THROUGH THE SUBSCRIPTION FOR CONVERTIBLE NOTES

On 6 September 2017, the Company entered into subscription agreements with two subscribers where Dragons 615 Limited was one of the subscribers and pursuant to which Dragons 615 Limited has agreed to subscribe for the convertible notes in a principal amount of HK\$280 million at an initial price of HK\$2.50 per share. The Company completed the issuance of the convertible notes on 3 October 2017. For details, please refer to the announcements of the Company dated 6 September 2017 and 3 October 2017.

As at 30 September 2017, interests in the underlying shares of the Company held through the subscription for convertible notes were as follows:

Name of Shareholder	Nature of interests	Number of underlying ordinary shares	Percentage of issued voting shares
DCP China Credit Fund I, L.P.	Interest in controlled corporation	112,000,000 <sup>(Note)</sup>	6.17%
Dignari Capital Partners GP Limited	Interest in controlled corporation	112,000,000 <sup>(Note)</sup>	6.17%
Ms. Tan Mei Zie Grace	Interest in controlled corporation	112,000,000 <sup>(Note)</sup>	6.17%

Note:

Dragons 615 Limited was a wholly-owned limited liability company of DCP China Credit Fund I, L.P. whose general partner was Dignari Capital Partners GP Limited, and Ms. Tan had the deemed interests in controlled corporation.

Save as disclosed above, as at 30 September 2017, the Directors are not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

### SHARE OPTION SCHEME

The Share Option Scheme of the Company was adopted by shareholders of the Company on 30 August 2016.

A summary of the Share Option Scheme is as follows:

The purpose of the Share Option Scheme is to provide an incentive for the qualified participants to work with commitment towards enhancing the value of our Company and its shares for the benefit of its shareholders, and to maintain or attract business relationship with the qualified participants whose contributions are or may be beneficial to the growth of our Group.

The participants of the Share Option Scheme include any directors, employees (whether full-time or part-time) of the Group, and any customer, business or joint venture partner, advisor, consultant, supplier, agent, service provider of our Group or any full-time employee of them, who the Directors consider, in their sole discretion, has contributed or will contribute to our Group.

The life of the Share Option Scheme is ten years commencing on 30 August 2016 and expiring on 29 August 2026. As at 30 September 2017, the outstanding share options under the Share Option Scheme available for issue of ordinary shares was 139,000,000 shares representing approximately 7.66% of the issued shares of the Company as at the date of this interim report.

There is no minimum period for which any option under the Share Option Scheme must be held before it can be exercised and no performance target which need to be achieved by a grantee before the option can be exercised unless the Directors otherwise determined and stated in the offer letter of the grant of options.

An offer of the grant of option shall remain open (not exceeding 30 days, inclusive of, and from, the date of offer) as the Directors may determine for acceptance by a grantee at a consideration of HK\$1 for the grant.

The maximum entitlement of each participant under the Share Option Scheme if the acceptance of those options would result in the total number of shares issued and to be issued to that grantee on exercise of his/her options (including both exercised and outstanding options) during any 12-month period exceeding 1% of the total shares of the Company then in issue.





The subscription price shall be a price determined by the Directors but in any event shall be at least the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets on the date of offer; (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of the shares of the Company.

Since the effective date of the Share Option Scheme and up to the date of the reporting period, the Company has granted a total of 36,000,000 share options to eligible grantees, including certain Directors and employees of the Group, on 30 June 2017, while no share option had been exercised or cancelled by the Company under the Share Option Scheme. Details of the movement in the share options under the Share Option Scheme during the reporting period and outstanding as at 30 September 2017 were as follows:

	Number of options outstanding at 1 April 2017	Number of options granted during the period	Number of ordinary shares acquired upon exercise of options during the period	Number of options lapsed during the period	Number of options cancelled during the period	Number of options outstanding at 30 September 2017	Date granted	Exercise price per ordinary share	Exercisable period
<b>Directors:</b>									
Mr. Yim Chun Leung	-	13,500,000	-	-	-	13,500,000	30 June 2017	HK\$2.06	from 1 October 2017 up to 30 September 2020 in three tranches
Ms. Pun Yue Wai	-	4,500,000	-	-	-	4,500,000	30 June 2017	HK\$2.06	from 1 October 2017 up to 30 September 2020 in three tranches
	-	<b>18,000,000</b>	-	-	-	<b>18,000,000</b>			
<b>All other employees:</b>									
	-	18,000,000	-	-	-	18,000,000	30 June 2017	HK\$2.06	from 1 October 2017 up to 30 September 2020 in three tranches
<b>Grand Total</b>	-	<b>36,000,000</b>	-	-	-	<b>36,000,000</b>			

The share options granted on 30 June 2017 are valid and exercisable within a validity period from 1 October 2017, 2018 and 2019 up to 30 September 2018, 2019 and 2020 respectively in three tranches and any outstanding Options that the grantee has not exercised during the period for the respective tranche shall lapse automatically upon the expiry of the period for the respective tranche.

## SHARE INCENTIVE SCHEME

The Share Incentive Scheme of the Company was adopted by shareholders of the Company on 30 August 2016. During the reporting period, subject to the restriction terms (where applicable), a Director was granted share awards entitling the Director to acquire an aggregate of 6,000,000 ordinary shares of the Company on 19 April 2017. The number of ordinary shares acquired by the Director under the Share Incentive Scheme as were as follows:

Name of Executive Director	The number of ordinary shares of the Company acquired under the Share Incentive Scheme on the respective date of grant	
	19 April 2017	Total
Mr. Yim Chun Leung	6,000,000	6,000,000

For further information, please refer to note 14(B) to the unaudited interim financial report.

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the sections headed "Share Option Scheme" and "Share Incentive Scheme", at no time during the reporting period was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.



# Review Report to the Board of Directors



## Review report to the board of directors

### Jacobson Pharma Corporation Limited

*(Incorporated in Cayman Islands with limited liability)*

## Introduction

We have reviewed the interim financial report set out on pages 27 to 43 which comprises the consolidated statement of financial position of Jacobson Pharma Corporation Limited (the "Company") as of 30 September 2017 and the related consolidated statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2017 is not prepared, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

### **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
22 November 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 September 2017 – unaudited (Expressed in Hong Kong dollars)

	Note	Six months ended 30 September	
		2017 HK\$'000	2016 HK\$'000
<b>Revenue</b>	4	<b>743,032</b>	575,449
Cost of sales		<b>(464,128)</b>	(330,837)
<b>Gross profit</b>		<b>278,904</b>	244,612
Other income	5	<b>3,702</b>	4,186
Selling and distribution expenses		<b>(83,962)</b>	(72,601)
Administrative and other operating expenses		<b>(85,940)</b>	(97,869)
<b>Profit from operations</b>		<b>112,704</b>	78,328
Finance costs	6(A)	<b>(13,874)</b>	(1,905)
<b>Profit before taxation</b>	6	<b>98,830</b>	76,423
Income tax	7	<b>(15,762)</b>	(17,133)
<b>Profit for the period</b>		<b>83,068</b>	59,290
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translation of financial statements of operations outside Hong Kong		<b>1,496</b>	(973)
Other comprehensive income		<b>1,496</b>	(973)
<b>Total comprehensive income for the period</b>		<b>84,564</b>	58,317
<b>Profit attributable to:</b>			
Shareholders of the Company		<b>80,329</b>	57,052
Non-controlling interests		<b>2,739</b>	2,238
<b>Total profit for the period</b>		<b>83,068</b>	59,290
<b>Total comprehensive income attributable to:</b>			
Shareholders of the Company		<b>81,825</b>	56,079
Non-controlling interests		<b>2,739</b>	2,238
<b>Total comprehensive income for the period</b>		<b>84,564</b>	58,317
		<b>HK cents</b>	HK cents
<b>Earnings per share attributable to shareholders of the Company</b>			
Basic	8	<b>4.42</b>	4.27
Diluted	8	<b>4.42</b>	4.27

Details of dividends payable to shareholders of the Company are set out in note 9.

The notes on pages 31 to 43 form part of this interim financial report.



# Consolidated Statement of Financial Position

At 30 September 2017 – unaudited (Expressed in Hong Kong dollars)

	Note	As at 30 September 2017 HK\$'000	As at 31 March 2017 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	10	998,092	1,007,672
Leasehold land		48,428	48,839
Investment properties	10	56,000	–
Intangible assets		1,086,464	1,056,801
Non-current assets		20,595	20,420
Deferred tax assets		4,924	2,423
		<b>2,214,503</b>	2,136,155
<b>Current assets</b>			
Inventories		288,563	261,313
Trade and other receivables	11	228,878	201,470
Current tax recoverable		8,501	11,444
Cash and cash equivalents	12	326,340	359,685
		<b>852,282</b>	833,912
<b>Current liabilities</b>			
Trade and other payables	13	108,959	108,141
Bank loans		949,144	937,486
Obligations under finance leases		149	149
Current tax payable		26,444	12,713
		<b>1,084,696</b>	1,058,489
<b>Net current liabilities</b>		<b>232,414</b>	224,577
<b>Total assets less current liabilities</b>		<b>1,982,089</b>	1,911,578
<b>Non-current liabilities</b>			
Obligations under finance leases		298	373
Deferred tax liabilities		139,807	138,887
		<b>140,105</b>	139,260
<b>NET ASSETS</b>		<b>1,841,984</b>	1,772,318
<b>CAPITAL AND RESERVES</b>			
Share capital	14	18,156	18,156
Reserves		1,791,153	1,731,247
<b>Total equity attributable to shareholders of the Company</b>		<b>1,809,309</b>	1,749,403
Non-controlling interests		32,675	22,915
<b>TOTAL EQUITY</b>		<b>1,841,984</b>	1,772,318

The notes on pages 31 to 43 form part of this interim financial report.

# Consolidated Statement of Changes in Equity

For the six months ended 30 September 2017 – unaudited (Expressed in Hong Kong dollars)

Attributable to shareholders of the Company									
	Note	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
<b>At 1 April 2016</b>		13,125	6,445	126,645	5,787	754,880	906,882	49,263	956,145
Profit for the period		-	-	-	-	57,052	57,052	2,238	59,290
Other comprehensive income		-	-	-	(973)	-	(973)	-	(973)
Total comprehensive income for the period		-	-	-	(973)	57,052	56,079	2,238	58,317
Shares issued under initial public offering, net of share issuance expenses	14	4,375	615,982	-	-	-	620,357	-	620,357
Dividend paid by subsidiaries attributable to non-controlling interests		-	-	-	-	-	-	(520)	(520)
<b>At 30 September 2016</b>		17,500	622,427	126,645	4,814	811,932	1,583,318	50,981	1,634,299
<b>At 1 April 2017</b>		18,156	717,058	90,564	3,942	919,683	1,749,403	22,915	1,772,318
Profit for the period		-	-	-	-	80,329	80,329	2,739	83,068
Other comprehensive income		-	-	-	1,496	-	1,496	-	1,496
Total comprehensive income for the period		-	-	-	1,496	80,329	81,825	2,739	84,564
Acquisition of subsidiaries	15	-	-	-	-	-	-	7,021	7,021
Dividend paid	9(B)	-	-	-	-	(25,419)	(25,419)	-	(25,419)
Equity settled share-based transactions	14(B)	-	-	3,500	-	-	3,500	-	3,500
<b>At 30 September 2017</b>		18,156	717,058	94,064	5,438	974,593	1,809,309	32,675	1,841,984

The notes on pages 31 to 43 form part of this interim financial report.



# Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2017 – unaudited (Expressed in Hong Kong dollars)

	Note	Six months ended 30 September	
		2017 HK\$'000	2016 HK\$'000
<b>Operating activities</b>			
Cash generated from operations		127,109	99,818
Income tax (refunded)/paid		(494)	302
<b>Net cash generated from operating activities</b>		<b>126,615</b>	100,120
<b>Investing activities</b>			
Payment for purchase of property, plant and equipment, investment properties and intangible assets		(94,739)	(50,062)
Proceeds from disposal of a subsidiary		-	3,522
Proceeds from other disposals of property, plant and equipment		1,277	2,628
Net cash outflow from acquisition of subsidiaries under business combination	15	(38,992)	-
Other cash flows arising from investing activities		51	8
<b>Net cash used in investing activities</b>		<b>(132,403)</b>	(43,904)
<b>Financing activities</b>			
Proceeds from bank loans		403,540	464,877
Repayment of bank loans		(391,597)	(260,658)
Decrease in amounts due to the Controlling Parties		-	(36,202)
Proceeds from shares issued	14	-	656,250
Payment for share issuance expenses		-	(30,209)
Dividends paid		(25,419)	(224,800)
Dividends paid to non-controlling interests		-	(520)
Other cash flows arising from financing activities		(14,234)	(8,411)
<b>Net cash generated from financing activities</b>		<b>(27,710)</b>	560,327
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(33,498)</b>	616,543
<b>Cash and cash equivalents at 1 April</b>	12	<b>359,685</b>	82,925
<b>Effect of foreign exchange rate changes</b>		<b>153</b>	(96)
<b>Cash and cash equivalents at 30 September</b>	12	<b>326,340</b>	699,372

The notes on pages 31 to 43 form part of this interim financial report.

# Notes to the Unaudited Interim Financial Report

For the six months ended September 30, 2017

## 1 Corporate information

Jacobson Pharma Corporation Limited (the "Company") is an exempted company with limited liability incorporated in the Cayman Islands. The Company is an investment holding company. The Company and its subsidiaries (the "Group") is principally engaged in manufacturing and trading of generic drugs and proprietary medicines. The Company's shares were listed on the Main Board of Stock Exchange on 21 September 2016.

## 2 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 22 November 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2017, except for the accounting policy changes that are expected to be reflected in the consolidated financial statements for the year ended 31 March 2018. Details of any changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, 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.

This 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 2017 annual financial statements. 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 Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group at 30 September 2017. The directors consider this basis of preparation is appropriate having regard to the following factors.

Among the current liabilities, there were bank loans contractually due for repayment after one year of HK\$527,897,000 as at 30 September 2017 (31 March 2017: HK\$517,258,000), but have been classified as current liabilities because the loan agreements include a clause that gives the banks the unconditional right to call the bank loans at any time ("repayment on demand clause").

The directors do not expect the banks will demand repayment of these bank loans before maturity as the Group has good repayment records and has complied with the relevant covenants related to such banking facilities. In addition, the directors of the Company have carried out a detailed review of the working capital forecast of the Group for the period ending 30 September 2018. Based on the review, the directors consider the Group will have the necessary liquid funds to finance its working capital requirements and it will be able to meet its financial obligations as and when they fall due.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 26.

## 3 Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

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





### 3 Changes in accounting policies (Continued)

In addition, accounting policy that is newly adopted by the Group in the year beginning 1 April 2017 is set out below:

#### Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

### 4 Revenue and segment reporting

#### (A) REVENUE

The principal activities of the Group are manufacturing and trading of generic drugs and proprietary medicines.

Revenue represents the sales value of goods supplied to customers less returns and sales rebates and is after deduction of any trade discounts.

#### (B) SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. 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 presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Generic drugs: this segment develops, manufactures and distributes a host of off-patent medicine for various therapeutic use. Currently the activities in this regard are primarily carried out in Hong Kong.
- Proprietary medicines: this segment develops, manufactures and distributes medicines. Currently the activities in this regard are primarily carried out in Hong Kong.
- Wholesale and retail: this segment sells western and proprietary medicines in Hong Kong.

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 is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including interest income and interest expenses and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group's earnings are further adjusted for non-recurring items not attributable to the operations of individual segments.

Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Segment assets and liabilities of the Group are not reported to the Group's chief operating decision makers regularly. As a result, reportable assets and liabilities have not been presented in the interim financial report.

## 4 Revenue and segment reporting (Continued)

### (B) SEGMENT REPORTING (Continued)

#### (i) Segment revenue and results

Information regarding the Group's reportable segments as provided to the Group's chief operating decision makers for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Generic drugs		Proprietary medicines		Wholesale and retail		Total	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September		30 September	
	2017	2016	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	542,225	506,617	121,183	68,832	79,624	-	743,032	575,449
Inter-segment revenue	1,639	-	2,344	-	-	-	3,983	-
	543,864	506,617	123,527	68,832	79,624	-	747,015	575,449
Reportable segment profit (adjusted EBITDA)	125,780	120,780	39,794	8,631	2,189	-	167,763	129,411

#### (ii) Reconciliations of reportable segment revenue and profit or loss

	Six months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
<b>Revenue</b>		
Reportable segment revenue	747,015	575,449
Elimination of inter-segment revenue	(3,983)	-
Consolidated revenue	743,032	575,449
<b>Profit</b>		
Reportable segment profit	167,763	129,411
Elimination of inter-segment profit	(1,520)	-
Reportable segment profit derived from Group's external customers	166,243	129,411
Interest income from bank deposits	31	8
Other interest income	-	1,634
Gain on disposal of a subsidiary	-	2,393
Fair value gain on investment properties	2,599	-
Fair value gain on contingent consideration receivable	237	-
Listing expenses	-	(22,610)
Depreciation and amortisation	(56,406)	(32,508)
Finance costs	(13,874)	(1,905)
Consolidated profit before taxation	98,830	76,423



## 4 Revenue and segment reporting (Continued)

### (B) SEGMENT REPORTING (Continued)

#### (iii) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods are distributed to the ultimate customers by the Group, the consignees or the distributors.

	Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
<b>Revenue from external customers</b>		
Hong Kong (place of domicile)	696,832	535,750
China	18,927	19,619
Macau	16,654	11,178
Singapore	3,384	3,624
Others	7,235	5,278
	<b>743,032</b>	<b>575,449</b>

The following table sets out information about the geographical location of the Group's property, plant and equipment, leasehold land, investment properties, intangible assets and prepayment for purchase of non-current assets ("specified non-current assets"). The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and leasehold land, investment properties and the location of the operation to which they are allocated, in the case of intangible assets and non-current prepayments.

	As at 30 September 2017 HK\$'000	As at 31 March 2017 HK\$'000
	<b>Specified non-current assets</b>	
Hong Kong (place of domicile)	2,174,984	2,103,052
China	30,289	30,532
Macau	140	148
	<b>2,205,413</b>	<b>2,133,732</b>

#### (iv) Information about major customers

For the six months ended 30 September 2017, the Group's customer base includes one customer of the generic drugs segment with whom transactions have exceeded 10% of the Group's revenue. Revenue from sales of generic drugs to this customer, including sales to entities which are known to the Group to be under common control amounted to approximately HK\$184,158,000 (six months ended 30 September 2016: HK\$170,715,000).

## 5 Other income

	Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
Commission income	336	235
Interest income from bank deposits	31	8
Other interest income	–	1,634
Net foreign exchange gain/(loss)	99	(90)
Net loss on disposal of property, plant and equipment	(110)	(51)
Gain on disposal of a subsidiary	–	2,393
Fair value gain on investment properties	2,599	–
Fair value gain on contingent consideration receivable	237	–
Others	510	57
	<b>3,702</b>	<b>4,186</b>

## 6 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

### (A) FINANCE COSTS

	Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
Interest on bank loans	13,855	8,205
Finance charges on obligations under finance leases	19	23
	<b>13,874</b>	<b>8,228</b>
Less: Interest expenses capitalised into construction-in-progress and prepayment for acquisition of non-current assets	–	(6,323)
	<b>13,874</b>	<b>1,905</b>

### (B) OTHER ITEMS

	Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
Amortisation		
– leasehold land	818	583
– intangible assets	12,826	7,553
Depreciation (note 10)	42,762	24,372
Write-down of inventories	8,011	5,699
Research and development costs (other than amortisation of capitalised development costs)	4,234	251
Equity settled share-based transactions	3,500	–
Listing expenses	–	22,610



## 7 Income tax

	Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
Current tax	17,265	14,715
Deferred taxation	(1,503)	2,418
	<b>15,762</b>	17,133

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 30 September 2016: 16.5%) to the six months ended 30 September 2017. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

## 8 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of HK\$80,329,000 (six months ended 30 September 2016: HK\$57,052,000) and the weighted average of 1,815,625,000 ordinary shares (six months ended 30 September 2016: 1,336,407,000 shares) in issue during the interim period, calculated as follows:

	Six months ended 30 September	
	2017 '000	2016 '000
<b>Deemed weighted average number of ordinary shares:</b>		
Shares of the Company issued at the beginning of the period	1,815,625	1,312,500
Effect of shares issued under initial public offering (note 14)	-	23,907
Deemed weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	<b>1,815,625</b>	1,336,407

## 8 Earnings per share (Continued)

The calculation of diluted earnings per share is based on the profit attributable to shareholders of the Company of HK\$80,329,000 (six months ended 30 September 2016: HK\$57,052,000) and the weighted average of 1,815,625,000 ordinary shares (six months ended 30 September 2016: 1,336,672,000 ordinary shares) in issue during the interim period. The reconciliation of the weighted average number of ordinary shares used in the calculation of the basic earnings per share to that of the diluted earnings per share is as follows:

	Six months ended 30 September	
	2017 '000	2016 '000
<b>Deemed weighted average number of ordinary shares:</b>		
Deemed weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	1,815,625	1,336,407
Effect of dilutive potential ordinary shares – Over-allotment option	–	265
Deemed weighted average number of ordinary shares in issue during the period, used in the diluted earnings per share calculation	1,815,625	1,336,672

Diluted earnings per share equals to basic earnings per share for the six months ended 30 September 2017 because the potential ordinary shares outstanding were anti-dilutive.

As at 3 October 2017, the Group completed the issuance of 3.5% convertible notes in an aggregate principal amount of HK\$500,000,000 with a maximum number of 200,000,000 ordinary shares be allotted and issued upon exercise of the conversion rights attached to the convertible notes in full. If the transaction had occurred before the end of the reporting period, the number of ordinary shares or potential ordinary shares outstanding at the end of the reporting period would have changed significantly.

## 9 Dividends

### (A) DIVIDENDS PAYABLE TO SHAREHOLDERS ATTRIBUTABLE IN THE INTERIM PERIOD

	Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
Interim dividend declared and paid after the interim period of HK0.9 cent per share (six months ended 30 September 2016: HK0.8 cent per share)	16,341	14,525

The interim dividend has not been recognised as a liability at the end of the reporting period.

### (B) DIVIDENDS PAYABLE TO SHAREHOLDERS ATTRIBUTABLE TO THE PREVIOUS FINANCIAL YEAR, APPROVED AND PAID DURING THE INTERIM PERIOD

	Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK 1.4 cents per share (six months ended 30 September 2016: HK\$nil)	25,419	–



## 10 Property, plant and equipment and investment properties

### (A) PROPERTY, PLANT AND EQUIPMENT

	<b>As at 30 September 2017 HK\$'000</b>	As at 31 March 2017 HK\$'000
<b>Cost:</b>		
At 1 April 2017/2016	<b>1,277,202</b>	1,057,090
Additions	<b>33,670</b>	259,974
Acquisition of subsidiaries (note 15)	<b>22</b>	–
Disposals	<b>(42,206)</b>	(34,608)
Exchange difference	<b>4,169</b>	(5,254)
At 30 September 2017/31 March 2017	<b>1,272,857</b>	1,277,202
<b>Accumulated depreciation:</b>		
At 1 April 2017/2016	<b>269,530</b>	241,767
Charge for the period/year	<b>42,762</b>	62,264
Written back on disposals	<b>(40,819)</b>	(30,570)
Exchange difference	<b>3,292</b>	(3,931)
At 30 September 2017/31 March 2017	<b>274,765</b>	269,530
<b>Net book value:</b>		
At 30 September 2017/31 March 2017	<b>998,092</b>	1,007,672

### (B) INVESTMENT PROPERTIES

During the six months ended 30 September 2017, the Group acquired investment properties at a cost of HK\$53,401,000 (six months ended 30 September 2016: HK\$nil).

The valuations of investment properties at fair value as at 30 September 2017 were performed by the Group's independent valuer using the direct comparison method. As a result of the valuation, a net gain of HK\$2,599,000 (six months ended 30 September 2016: HK\$nil) has been recognised in profit or loss for the period.

## 11 Trade and other receivables

As at the end of the reporting period, the aging analysis of trade receivables (which are included in trade and other receivables) based on the invoice date and net of allowance for doubtful debts, is as follows:

	<b>As at 30 September 2017 HK\$'000</b>	As at 31 March 2017 HK\$'000
Less than 1 month	115,982	102,616
1 to 6 months	66,447	51,698
Over 6 months	594	–
Trade receivables	<b>183,023</b>	154,314
Other receivables	<b>4,237</b>	2,762
Deposits and prepayments	<b>41,618</b>	44,394
	<b>228,878</b>	201,470

## 12 Cash and cash equivalents

	<b>As at 30 September 2017 HK\$'000</b>	As at 31 March 2017 HK\$'000
Cash at bank and in hand	<b>326,340</b>	359,685

## 13 Trade and other payables

As at the end of reporting period, the aging analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

	<b>As at 30 September 2017 HK\$'000</b>	As at 31 March 2017 HK\$'000
Within 1 month	23,144	21,462
1 to 6 months	11,730	19,394
Over 6 months	74	38
Trade payables	<b>34,948</b>	40,894
Salary and bonus payables	<b>44,642</b>	38,793
Payables and accruals for addition of property, plant and equipment	<b>1,229</b>	1,973
Other payables and accruals	<b>25,026</b>	23,326
Receipts in advance	<b>3,114</b>	3,155
	<b>108,959</b>	108,141





## 14 Capital and reserve

### (A) SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
<b>Issued:</b>		
At 1 April 2016	1,312,500	13,125
Issue of ordinary shares under initial public offering	437,500	4,375
Issue of ordinary shares upon exercise of the over-allotment option	65,625	656
At 31 March 2017 and 30 September 2017	1,815,625	18,156

On 21 September 2016, the Company issued 437,500,000 ordinary shares with a par value of HK\$0.01 each, at price of HK\$1.50 per share by way of a global initial public offering to Hong Kong and international investors. Net proceeds from such issue amounted to HK\$620,357,000 (after deducting share issuance expenses of HK\$35,893,000) of which HK\$4,375,000 and HK\$615,982,000 were recorded in share capital and share premium respectively.

On 6 October 2016, the Company issued 65,625,000 ordinary shares with a par value of HK\$0.01 each, at price of HK\$1.50 per share, by way of the exercise of the over-allotment option under global offering on 3 October 2016. Net proceeds from such issue amounted to HK\$95,287,000 (after deducting share issuance expenses of HK\$3,150,000) of which HK\$656,000 and HK\$94,631,000 were recorded in share capital and share premium respectively.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

### (B) EQUITY SETTLED SHARE-BASED TRANSACTIONS

On 19 April 2017, pursuant to the Share Incentive Scheme adopted by the Company on 30 August 2016, an executive director of the Company was granted share awards entitling him to acquire an aggregate of 6,000,000 ordinary shares of the Company from the trustee of the Share Incentive Scheme and vested on 21 April 2017. All the share awards granted have been vested during the six months ended 30 September 2017 and there was no outstanding share awards granted as at 30 September 2017. The acquisition price of the share awards was HK\$1.6 per ordinary share. The market closing price at that date was HK\$1.6 per ordinary share. The fair value of the share awards at grant date was effectively zero.

On 30 June 2017, 36,000,000 share options were granted at a consideration of HK\$1 to certain employees, including certain executive directors of the Company and certain directors of subsidiaries of the Company, under the Company's employee share option scheme (no share options were granted during the six months ended 30 September 2016). Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options will become exercisable on 1 October 2017, 2018, and 2019, until 30 September 2018, 2019 and 2020 respectively. The exercise price is HK\$2.06 per share, being the weighted average closing price of the Company's ordinary shares immediately before the grant. No options were exercised during the six months ended 30 September 2017 (2016: nil).

## 15 Business combination

On 10 April 2017, the Group acquired the 70% equity interest of Hong Ning Hong Limited, which is engaged in retail and wholesale of Chinese medicines and pharmaceutical products via its retail outlet at a consideration of HK\$56,000,000 to accelerate the growth momentum for the Group's proprietary medicine business and facilitates the Group's penetration into China. These entities contributed revenue of HK\$79,624,000 and profit of HK\$550,000 to the Group for the period from 10 April 2017 to 30 September 2017. If the acquisition had occurred on 1 April 2017, the Group's revenue and profit for the six months ended 30 September 2017 would have been increased by HK\$4,466,000 and HK\$388,000 respectively.

The acquisition had the following provisional effect on the Group's assets and liabilities on the acquisition date:

	<b>Provisional values recognised on acquisition</b>
	HK\$'000
Property, plant and equipment	22
Inventories	16,070
Trade and other receivables	1,783
Cash and cash equivalents	11,408
Trade and other payables	(5,877)
Net identifiable assets acquired	23,406
Non-controlling interests	(7,021)
Less: total consideration transferred	(52,071)
Goodwill	35,686

The goodwill is attributable mainly to the first-hand market intelligence for capitalising on market opportunities and new product development and the synergies expected to be achieved for the Group's proprietary medicines segment. The Group is still in the process of assessing the final fair value of the total identifiable net assets acquired and therefore the goodwill on acquisition may vary.

	HK\$'000
<b>Acquisition date fair value of consideration transferred</b>	
Cash consideration paid	56,000
Less: estimated contingent consideration receivable	(3,929)
	52,071

	HK\$'000
<b>Analysis of the net cash outflow in respect of the acquisition during the period</b>	
Cash consideration paid	56,000
Less: cash and cash equivalents acquired	(11,408)
Less: instalment payment paid in prior period	(5,600)
	38,992



## 15 Business combination (Continued)

### CONTINGENT CONSIDERATION RECEIVABLE

Pursuant to the agreement, the seller guaranteed to the Group that the 2018 audited net profit after tax ("Net Profit") and 2019 Net Profit ("Annual Guaranteed Profit") shall each be no less than HK\$8,000,000. In the event that any of the 2018 Net Profit and 2019 Net Profit is less than the Annual Guaranteed Profit, the seller shall pay the shortfall amount to the Group on a dollar to dollar basis and the maximum aggregate shortfall amount which may be paid by the seller shall be capped at HK\$5,000,000. The Group has included HK\$3,929,000 as contingent consideration receivable related to the profit guarantee as a non-current asset, which represents its fair value at the date of acquisition. As at 30 September 2017, the fair value of contingent consideration receivable had increased to HK\$4,166,000.

### ACQUISITION-RELATED COSTS

The Group incurred acquisition-related costs of HK\$712,000 relating to the external legal fee and due diligence costs. These costs have been included in "administrative and other operating expenses" in the consolidated statement of profit or loss and other comprehensive income for the six months ended 30 September 2017.

## 16 Fair value measurement of financial instruments

### FAIR VALUE HIERARCHY

HKFRS 13, *Fair value measurement* categorises fair value measurements into a three-level hierarchy. The level into which fair value is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

At 30 September 2017, the only financial instrument carried at fair value was contingent consideration receivable of HK\$4,166,000 (see note 15) (2016: HK\$nil). The instrument is measured at fair value on a recurring basis and their fair value measurements fall into Level 3 of the fair value hierarchy described above.

The fair value of the contingent consideration receivable is determined using monte carlo simulation and the significant unobservable input used in the fair value measurement is expected Net Profit. The fair value will increase when the expected profits decrease. As at 30 September 2017, it is estimated that with all other variables held constant, an increase/decrease in the Net Profit by 10% would have decreased/increased the Group's profit by HK\$285,000 (2016: HK\$nil).

During the period, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

## 17 Capital commitments

Capital commitments outstanding at the end of each reporting period not provided for in the interim financial report were as follows:

	<b>As at 30 September 2017 HK\$'000</b>	As at 31 March 2017 HK\$'000
Authorised and contracted for		
– Acquisition of subsidiaries	–	50,400
– Purchase of non-current assets	<b>6,098</b>	10,166
	<b>6,098</b>	60,566

## 18 Material related party transactions

### (A) KEY MANAGEMENT PERSONNEL EMOLUMENTS

Emoluments for key management personnel of the Group, who are also Directors of the Company, are as follows:

	<b>Six months ended September 30</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
Short-term employee benefits	<b>4,969</b>	7,539
Post-employment benefits	<b>169</b>	161
Equity compensation benefits	<b>1,763</b>	–
	<b>6,901</b>	7,700

### (B) GUARANTEE ISSUED BY RELATED PARTIES

As at 30 September 2016, bank loans with personal guarantees given by the Controlling Parties amounted to HK\$77,225,000. The Controlling Parties' personal guarantees were released and replaced by a corporate guarantee provided by the Company in October 2016.

## 19 Non-adjusting events after the reporting period

On 3 October 2017, the Group completed the issuance of 3.5% convertible notes in an aggregate principal amount of HK\$500,000,000 to two independent investors. The convertible notes will be due for repayment in 2020.

On 18 October 2017, pursuant to the share option scheme adopted by the Company on 30 August 2016, the Company granted 1,000,000 share options to the grantee to subscribe for 1,000,000 ordinary shares of HK\$0.01 each of the Company at an exercise price of HK\$2.13 per share.



## Glossary

In this report, unless otherwise specified, the following glossary applies:

“adjusted EBITDA”	earnings before interest, taxes, depreciation and amortisation, where “interest” is regarded as including interest income and interest expenses and “depreciation and amortisation” is regarded as including impairment losses on non-current assets, further adjusted for non-recurring items not attributable to the operations of individual segments
“adjusted EBITDA margin”	adjusted EBITDA divided by revenue and multiplied by 100%
“adjusted profit attributable to shareholders”	profit attributable to the Shareholders excluding one-off listing expense
“ASEAN”	The Association of Southeast Asian Nations
“Board”	Board of Directors
“CG Code”	Corporate Governance Code as amended from time to time contained in Appendix 14 to the Listing Rules
“China” or “the PRC”	the People’s Republic of China excluding, for the purpose of this interim report, Hong Kong, Macau Special Administrative Region and Taiwan
“Company” or “our Company” or “the Company”	Jacobson Pharma Corporation Limited, an exempted company incorporated in the Cayman Islands with limited liability on 16 February 2016
“Controlling Shareholders”	Mr. Sum, Mr. Lau, Kingshill, Kingshill Development Group Inc and Longjin
“Deed of Acting in Concert”	the deed of acting in concert dated 8 January 2016 entered into between Kingshill, Longjin and Mr. Lau whereby they confirmed the existence of their acting in concert arrangement
“Dignari”	Dignari Capital Partners GP Limited, the general partner of DCP China Credit Fund I, L.P. to which Dragons 615 Limited was its wholly-owned limited liability company
“Director(s)”	the director(s) of the Company
“FY2017 Interim”	the six months ended 30 September 2016
“FY2018”	the year ending 31 March 2018
“FY2018 Interim” or “reporting period”	the six months ended 30 September 2017
“2017 Interim Report”	the interim report of the Company for the six months ended 30 September 2017
“GMP”	Good Manufacturing Practice, a set of detailed guidelines on practices governing the production of pharmaceutical products designed to protect consumers by minimising production errors and the possibility of contamination
“Hillhouse”	Hillhouse InRe Fund, L.P. to which HH InRe JP, Ltd. was its indirectly wholly-owned limited liability company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKIB”	Hong Kong Institute of Biotechnology
“Ho Chai Kung Group”	Subsidiaries which are engaged in manufacturing and sales of generic drugs and proprietary medicines under the brand name of “Ho Chai Kung”
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited
“Jacobson”, “the Group”, “our Group”, “we”, “us”, or “our”	the Company and its subsidiaries
“Kingshill”	Kingshill Development Limited, a limited liability company incorporated under the laws of BVI on 8 July 1998, and one of our Controlling Shareholders
“Listing”	the listing of the Shares on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Main Board”	Main Board of the Stock Exchange
“Medipharma”	Medipharma Limited
“Model Code”	Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“Mr. Lau”	Mr. Lau Wing Hung, one of our Controlling Shareholders
“Mr. Sum”	Mr. Sum Kwong Yip, Derek, our chairman, executive Director, chief executive officer and one of our Controlling Shareholders
“NAMI”	Nano & Advanced Materials Institute Limited
“net debts”	bank loans less cash and cash equivalents
“net gearing ratio”	net debts divided by total equity multiplied by 100%
“PIC/S”	two international instruments, the Pharmaceutical Inspection Convention and the Pharmaceutical Inspection Co-operation Scheme, which seek to promote constructive co-operation in the field of GMP between the participating authorities in different geographic markets
“PIC/S GMP”	Good Manufacturing Practice in accordance with the PIC/S GMP Guide issued by PIC/S
“private sector”	refers to non-public sector
“public sector”	refers to all public institutions and a number of public institutions and clinics in Hong Kong
“Queenshill”	Queenshill Development Limited, a limited liability company incorporated under the laws of BVI on 12 December 2012
“R&D”	research and development
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share(s)”	ordinary share(s) in the capital of the Company with nominal value of HK\$0.01 each
“Shareholder(s)”	holder(s) of Shares
“Share Incentive Scheme”	the share incentive scheme conditionally adopted by our Company on 30 August 2016, the principal terms of which are summarised in “Statutory and General Information – D. Other Information – 2. Share Incentive Scheme” in Appendix V to the Prospectus



“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 30 August 2016, the principal terms of which are summarised in “Statutory and General Information — D. Other Information — 1. Share Option Scheme” in Appendix V to the Prospectus
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“The Kingshill Trust”	The Kingshill Trust is a discretionary trust established by Mr. Sum (as settlor) on 16 May 2016 with Mr. Sum and his family members as the discretionary beneficiaries
“The Queenshill Trust”	The Queenshill Trust is a discretionary trust established by Mr. Sum (as settlor) on 16 May 2016 with Mr. Sum and his family members as the discretionary beneficiaries