Reaching Out For New Horizons

JACOBSON PHARMA CORPORATION LIMITED

Incorporated under the laws of the Cayman Islands with limited liability
Stock Code : 2633

Jacobson Pharma Corporation

Annual Report 2018

CONTENTS

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
Mr. Young Chun Man, Kenneth
Professor Wong Chi Kei, Ian

AUDIT COMMITTEE

Mr. Young Chun Man, Kenneth (Chairman)
Dr. Lam Kwing Tong, Alan
Professor Wong Chi Kei, Ian

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Professor Wong Chi Kei, Ian (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

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

PUBLIC RELATIONS CONSULTANT

Strategic Public Relations Group

STOCK CODE

2633

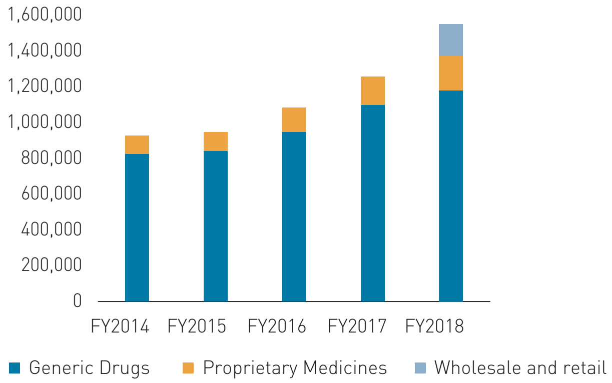
COMPANY WEBSITE

www.jacobsonpharma.com

FINANCIAL HIGHLIGHTS

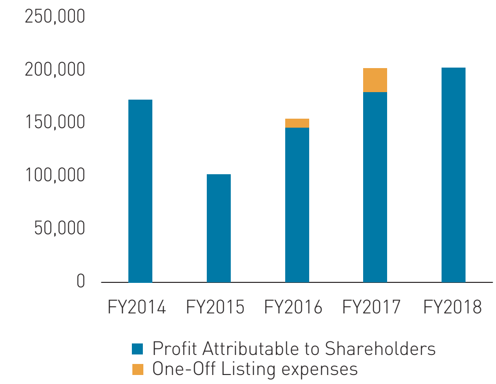
Revenue

(HK$'000)



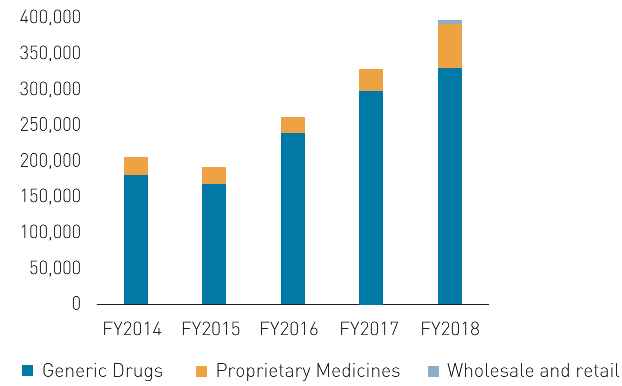
Adjusted Profit Attributable to Shareholders

(HK$'000)



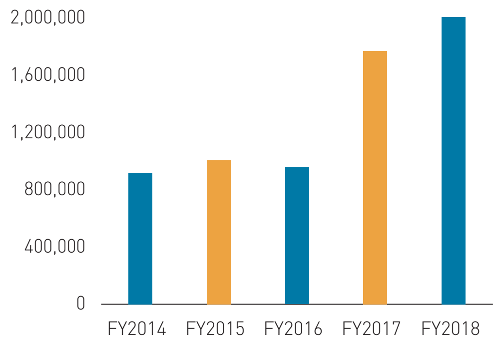
Adjusted EBITDA

(HK$'000)



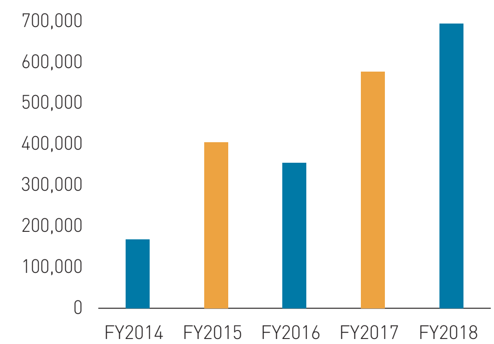
Net Assets Employed

(HK$'000)

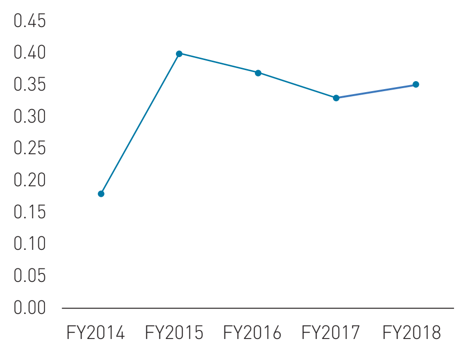


Net Debts

(HK$'000)



Net Gearing Ratio



	Year ended 31 March 2018 HK$'000	Year ended 31 March 2017 HK$'000	Change
Revenue			
– Generic Drugs	1,178,795	1,097,574	+7.4%
– Proprietary Medicines	192,238	158,383	+21.4%
– Wholesale and retail	177,651	–	–
Total	1,548,684	1,255,957	+23.3%
Gross profit	617,662	556,888	+10.9%
Gross profit margin (%)	39.9%	44.3%	
Profit attributable to shareholders of the Company	202,270	179,328	+12.8%
Profit margin attributable to shareholders of the Company (%)	13.1%	14.3%	
Adjusted EBITDA (1)	397,003	328,918	+20.7%
Adjusted EBITDA margin (%) (2)	25.6%	26.2%	
Return on equity (%) (3)	10.8%	13.3%	

	As at 31 March 2018 HK$'000	As at 31 March 2017 HK$'000	Change
Total assets	3,611,155	2,970,067	+21.6%
Total liabilities	1,603,180	1,197,749	+33.8%
Total equity	2,007,975	1,772,318	+13.3%

(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 profit for the year divided by the arithmetic mean of the opening and closing balances of total equity in the relevant year and multiplied by 100%.

LETTER TO SHAREHOLDERS

Dear Shareholders,

"Prudent but bold, our efforts throughout 2018 have positioned us to reap rewards in years to come."

The year of 2018 marks our 20th anniversary and gives us the opportunity to reflect not only on our past achievements, but also on what it takes to prepare us well for facing the challenges ahead. We need to remain competitive in today's fast-changing business environment, and be vigilant and ready to embrace the opportunities that prevail in the market. The next twenty years will require a different set of thinking from us – new ways of working, of approaching innovation and of building a technology-driven commercial platform.

Twenty years after our founding, Jacobson remains a focused and forward-looking player in the pharmaceutical arena in Hong Kong. Boasting a broad portfolio of essential and specialised generics as well as an array of proprietary brands, we are a recognised leader in both private and public segments. This, complemented by the strength of our sales and distribution arm, gives us a distinctive and fully-integrated business model that is well-suited to leverage our core competences and support future growth.

2018 was a year of consolidation as we carefully integrated the newly acquired businesses into our core operations. Our management teams had made tremendous efforts in maximising the synergies amongst these units. Jacobson's overall business continued to deliver solid results with a 23.3% growth on revenue and a 20.7% growth on adjusted EBITDA in FY2018. Our performance was driven by the execution of our balanced business strategies that focused on delivering results across our generics and proprietary medicine businesses.

PROSPECT

Powered by this growth momentum, we continued to invest in expanding our generic drug and proprietary medicine product portfolios and pipelines, integrate our operational capabilities and explore opportunities through in-licensing, strategic alliances and acquisitions.

1. 2018 demonstrated the strength of our scientific and regulatory capabilities to bring complex generics to market. We realised some of those opportunities incubated over the last few years, including the key product approvals like the central nervous system drug Quetiapine extended-release tablet, anti-viral drugs like Lamivudine/Zidovudine combination and cardio-vascular drugs like Irbesartan, Atorvastatin and Ezetimbe.

2. Throughout the past year, we took steps to leverage our capabilities across the geographic boundaries, expanding our ability and enhancing our readiness to participate in more markets. We now operate our own sales and marketing office in Macau with over 200 products already selling in there. An investment was made in Cambodia aiming to register an array of generics and proprietary medicines to exploit the emerging potential in ASEAN markets such as Vietnam and Myanmar. Our goal is to leverage our differentiated product portfolio and marketing knowhow and build a strong position of Jacobson's products in all of these new markets.

3. Biosimilars and biologics will represent a major opportunity in the future. With rising cost pressure in the healthcare system for the treatment of cancer and auto-immune diseases alike, there will be a growing demand for high quality and clinically-substantiated alternatives. We have taken steps to ensure our ability to participate in this arena. As a result of the in-licensing framework agreement with Shanghai Henlius Biotech Inc, we will gain the right to commercialise a proprietary biosimilar product (a biosimilar version of Trastuzumab) in Hong Kong and Macau as well as the right of first negotiation to commercialise the product in certain ASEAN markets. We aim to build a sustainable commercial platform across Hong Kong and ASEAN domains to reinforce our sales and regulatory competence in the marketing of biosimilars and biologics. Our goal is to make Jacobson a preferred partner of choice in these regions.

STRATEGIES FOR CONTINUED LONG-TERM GROWTH

Few years ago, we set a goal to build a regional company in Asia specialising in generic and proprietary medicines that would be well-positioned for sustainable long-term growth.

Today we have forged a sound business model that is poised for a broadened geographic footprint, a vertically-integrated supply chain with ability to develop and manufacture product in multiple dosage forms coupled with a disciplined R&D capability. To achieve our strategic objectives in 2019 and beyond, our priorities are clear comprising the five growth pillars:

1. continue to execute integration activities to further optimise our cost structure, and to strategically reinvest in our business especially in areas such as sales and brand management competence;

2. leverage our expanded geographic footprint to sustain a commercially competitive platform in the Pan-Asia region;

3. maximise the potential of our R&D capabilities by continuing to focus on high value product opportunities and accelerating our speed to market;

4. maintain a sharp focus on building a portfolio of biosimilar and biologic products. By building a sound commercial platform on marketing and regulatory affairs management, we aim to become the preferred partner of choice in this arena when it comes to in-licensing or business representation of biosimilars; and

5. pursue business development initiatives including mergers and acquisitions and in-licensing opportunities that expand our regional commercial presence, bring us new products and technologies, and complement our organic growth strategies.

As we look ahead to 2019, I expect we will continue to face new challenges as well as opportunities in the marketplace. I am confident that our dedicated management team will deliver well on the growth strategies. We are committed to building on our commercial strengths, maximising our ability to invest in opportunities, and retaining the best talent in the industry, and I remain adamantly positive that Jacobson will continue to do well by doing good.

APPRECIATION

Last but not the least, I wish to thank all Jacobson staff and associates for their creativity, energy and engagement. I also want to thank our board of directors for their support and guidance over the years, and you – our shareholders – for your continued confidence in Jacobson.

Sincerely,

Sum Kwong Yip, Derek
Chairman and CEO
JACOBSON PHARMA CORPORATION LIMITED

Hong Kong, 25 June 2018

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

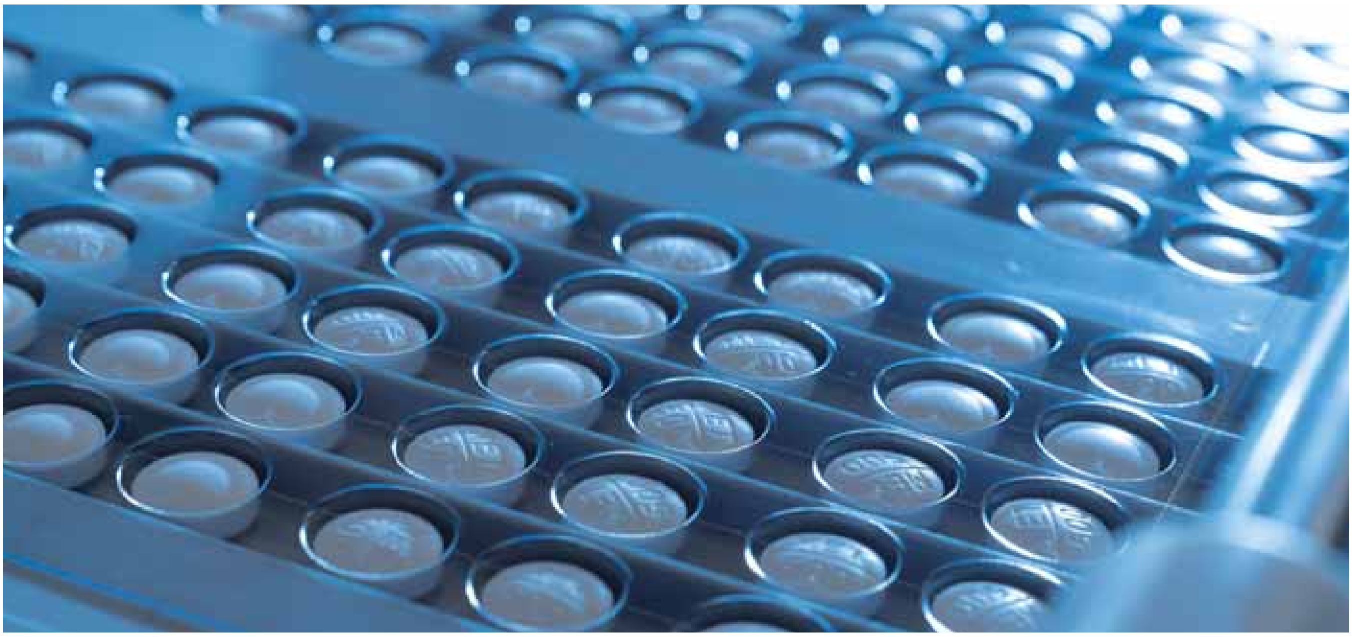
We proactively venture into uncharted turf for exploring opportunities. We go the extra-mile for attaining excellence via innovative solutions.

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 a leading generic drug company in Hong Kong representing about 30% share of the total generic drug sales of the market. The Group has been a major provider of generic drugs to the Public Sector in Hong Kong, accounting for approximately 70% of their annual purchase of generic drugs. It is also a leading provider of generic drugs in Hong Kong in the Private Sector with about 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 essential and specialty drugs 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, cementing our position as the leader in a number of large and fast-growing therapeutic categories in the Hong Kong pharmaceutical market. We continually expand our portfolio to reinforce our leadership position with a strategic focus on specialty drugs and biosimilars to tap the fast growing market segments.

- ### 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 local and regional market coverage for the proprietary medicine brands we have acquired.

- ### Leading research and development capabilities that can develop premium generic drugs and healthcare solutions to fulfill unmet demands

  We are the leading pharmaceutical research and development company in Hong Kong among generic drug 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 actively explore collaborations with local and overseas R&D institutions and companies on the development of innovative technologies for pharmaceutical manufacturing and diagnostic tools.

- ### Well-established sales and distribution network with extensive market coverage

  We have extensive local 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. We are also committed to the strategy of expanding our regional presence into strategically selected markets in Asia Pacific.

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

MANAGEMENT DISCUSSION & ANALYSIS

High speed and precision automated tablet and capsule blistering machine in the PIC/S accredited manufacturing facilities of Synco (H.K.) Limited

BUSINESS REVIEW

GENERIC DRUGS

Continued Growth of Our Market Position

The Generic Drugs business of the Group continued to grow steadily at 7.4% in sales revenue in FY2018, accounting for HK$1,178.8 million as compared to HK$1,097.6 million in financial year ended 31 March 2017 ("FY2017"). The private and public sectors posted a sales revenue of HK$806.8 million and HK$372.0 million respectively during the Reporting Period.

The Group saw solid sales growth for its central nervous system and respiratory categories at 20.5% and 36.0% respectively, whilst the ophthalmic preparations and dermatological products also posted an encouraging growth of 14.9% and 20.0% respectively in the public sector during the Reporting Period. Losartan and Gliclazide performed well with a respective sales growth of 48.0% and 20.7%. In addition, we also secured new tenders for Ursodeoxycholic Acid Capsule, Zolpidem Tablet, Amisulpride Tablets and Risperidone Tablets, along with Lamivudine Tablet 150mg which was awarded as the first generic in the public sector. On the other hand, attributing to pricing pressure, some cardiovascular products in the public sector such as Lisinopril Tablets and Amlodipine Tablets recorded a decline of 4.0% and 17.4% in sales revenue. The overall generic drug sales performance was also hampered by the decline in antibiotics sales in the Private Sector owing to a change of prescribing habit by doctors along with a negative impact from temporary supply disruptions on certain product lines during the product consolidation processes amongst our manufacturing operations.

As a major player in generic medicines in Hong Kong, the Group has been taking a strong market position in a number of the high growth therapeutic categories and has progressively introduced new products under its R&D pipeline to tap growth potential in respective categories. During the Reporting Period, the Group has secured the registration approvals of a number of products including Rosuvastatin, Ezetimibe, Irbesartan and Telmisartan of the cardiovascular class, Quetiapine and Aripiprazole of the central nervous system class, Celecoxib of the analgesic class and Lamivudine/Zidovudine combination product of the antiviral class. This broadened product offerings will add strength to our portfolio for driving our sales and volume growth in the generics segment, especially for drugs being indicated for chronic disease treatments in the public sector.

In a bid to alleviate the strain in the public healthcare system, the General Outpatient Clinic Public Private Partnership Program has been rolled out aiming at diverting public patients to private clinics under a subsidised scheme of consultation for both chronic and episodic illnesses, which will extend its coverage to 18 districts of Hong Kong by 2018-2019. As a major generic drugs supplier to both the Public and Private Sectors, the Group is poised to tap such market opportunities and expand its product penetration into both sectors. Currently our Group is supplying approximately 34 items to more than 250 private doctors participating in the above-mentioned program.


Quality inspection
in the suppositories
production process

Suppositories production line
at Europharm Laboratoires Co. Ltd.

Integrated and Streamlined Production for Enhanced Capability and Capacity

Steady progress has been made on streamlining our production processes among the Group's manufacturing facilities for enhanced efficiency and productivity. During the Reporting Period, all of our manufacturing units operated effectively with a steady rise in production output. There were 2,764 million of tablets and capsules, 2,765 thousand liters of oral liquid and 298 tonnes of cream products produced, representing a respective increase of 6.0%, 1.5% and 36.9% versus the same period in FY2017, despite the temporary disruptions due to regulatory clearances in the transfer of products among our manufacturing plants, especially during the second half of the Reporting Period.

Equipped with machinery that caters for high production output, the Group has been able to ramp up its solid dosage and liquid output by 50.5% and 288.0% respectively at our Synco plant in the second half of the Reporting Period with the help of a robust operation management system. This new plant produced a total of over 600 million tablets and 250 thousand liters oral liquid during the Reporting Period, which accounted for about 23.2% (FY2017: 6.7%) and 9.4% (FY2017: 2.0%) of total respective output of all our manufacturing facilities in FY2018, contributing to the continued optimisation of utilisation rate across the facilities.

The Group is the only active manufacturer in Hong Kong for certain specialised dosage forms such as sterile eye drops, suppositories, and enemas. Augmenting an increase of over 100% to the Group's sterile eye-drops production capacity, our PIC/S GMP compliant sterile eye-drops production facilities produced a total of over 4.5 million bottles of eye-drops during the Reporting Period, representing an increase of over 100% against FY2017.

Digitised Platform Transforming Sales and Supply Chain Competence

In our continued pursuit for the enhancement of our sales competence and operational excellence, we have further strengthened the understanding of and connection with our customers through our centralised customer relationship management platform providing constant tracking and analytics of customer purchase records, profiles, and preferences.

We successfully completed the first phase implementation of an advanced cloud-based customer relationship management ("CRM") system developed by a global leading provider Salesforce.com. Empowered with the mobile ordering capabilities, our sales teams can access inventory information and place orders in the field with boosted efficiency and productivity by the significant time reduction of the order processing cycle.

Pellets bottling operation
at Po Chai Pill's
manufacturing facilities

Transiting into the second phase of the system implementation, we aim at improving the efficiency and effectiveness of our sales team in targeting potential customers with sales call planning and territories management capabilities. This advanced phase of the system also enhances our sales management capabilities in targets setting and monitoring via this digitised multi-purpose CRM platform, so as to maximise sales generation potential.

To capitalise on the advantages of an online sales platform leveraging on our diverse portfolio and broad customer base, we have also taken active steps in exploring and developing an e-commerce model to facilitate direct electronic order placement by customers in order to further enhance our customer service and management capabilities.

Prospective Growth Platform for Specialty Drugs and Biopharmaceuticals

Persisting in our drive to explore and expand market coverage in strategically selected markets in Asia Pacific, we have entered into collaborative framework agreements with different strategic partners in Korea and Taiwan, covering in-licensing and technology transfer of high-end generic drugs and biosimilars, and representation of finished branded products in the region.

The global market for biosimilars is projected to grow at a significant rate in coming years. Biosimilars, the follow-on version of off-patent biologics offering a more affordable therapeutic option to patients with many disabling and life-threatening diseases, are reaping high attention from the market for its cost saving benefit to the healthcare systems. Current market size of biologics in Hong Kong is about HK$1.5 billion and Trastuzumab alone accounts for HK$250 million in sales.

To swiftly tap into the fast-growing biosimilar market in Hong Kong and certain emerging ASEAN markets, the Group entered into a licensing framework agreement with a subsidiary of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. namely, Shanghai Henlius Biotech Inc., for an exclusive right to develop and market a propriety biosimilar product, Recombinant Humanised Anti-Her2 Monoclonal Antibody Injection (biosimilar version of Trastuzumab) in Hong Kong and Macau, in association with a right of first negotiation to commercialise the product in certain emerging markets within ASEAN region. As of the date of signing of the agreement, the product for the indication of breast cancer has officially entered phase III trial. Also, at the beginning of 2016, Shanghai Henlius received CFDA approval for clinical trials of the product for the indication of gastric cancer.

On broadening our portfolio of specialty drugs, we have also signed an in-licensing agreement for a specialised anti-viral drug for manufacturing and exclusive distribution right in Hong Kong and other Asian markets such Thailand, Vietnam, Cambodia, Malaysia, Myanmar, and Philippines.

Moreover, the Group has continued its strategy and effort on developing the market in Macau. Propelled by the expanding product offerings in the market, our dedicated sales team have geared up on their direct selling of a broad suite of products to doctors and dispensaries, successfully deepening our penetration to maximise the sales potential of the market. Benefitting from the new development of Guangdong-Hong Kong-Macao Greater Bay Area and the anticipated growth in trade and traffic across the region, Hong Kong and Macau will play a more active role in terms of presenting wide choices of drugs and proprietary medicines to the population in the Greater Bay Area.

PROPRIETARY MEDICINES

Strong Brand Positions and Sustainable Growth

Contributing a steadily growing revenue, the Proprietary Medicines segment of the Group achieved a sales of HK$192.2 million during the Reporting Period, representing an increase of 21.3% as compared with HK$158.4 million for FY2017.

The retail sector in Hong Kong has seen a considerable slow-down in recent years as the consumption expenditure of overnight visitors from mainland China has dropped for four consecutive years since 2013, albeit a sign of resurgence in 2017. Although Po Chai Pills' growth momentum in Hong Kong has also been hampered during the Reporting Period, its sales in chain-store channel posted a notable growth, mainly attributable to our persistent marketing and brand building efforts on strengthening its competitive positioning and appeal to the broader consumer groups, along with its robust distribution and sales support. Riding on the social media platform to extend the brand's reach to the younger consumers, the online adverting campaign "Po Chai Pills x Angela Yuen" launched during the Reporting Period proved to be a hit, serving the objectives of product education and creating a contemporary appeal of the brand among the younger segment. Such brand rejuvenation efforts for Po Chai Pills have also received positive feedback from markets in Malaysia and Singapore.

Po Chai Pills production
at modern GMP manufacturing facilities

Enemas production line at
Europharm Laboratoires Co. Ltd.

Quality control laboratory at Synco (H.K.) Limited

Puji Pills, with its over-the counter classification status and recent relaunch in the China market, has picked up its sales momentum under the distributorship with two respective distributors in Guangdong and Yunnan provinces. Sales of Puji Pills rose from HK$2.3 million in FY2017 to HK$8.0 million in FY2018. Continuous marketing and business development activities for Puji Pills will be actively carried out by leveraging the high brand awareness of Po Chai Pills and the extensive distribution network and experience of our distribution partners.

On the front of overseas market development, the product registrations for Po Chai Pills in emerging ASEAN markets, such as Cambodia and Vietnam, have been progressing well, and we expect to secure the approval in coming 12 months.

Ho Chai Kung, the newly acquired household brand of the Group and enjoying a strong brand recognition in the analgesics (pain control) category in Hong Kong, Macau and Southern China markets, posted a contribution of HK$73.8 million in revenue to our Proprietary Medicine business during the Reporting Period.

Furthermore, Shiling Oil, another well-recognised proprietary medicine brand acquired by the Group, has completed its transfer of product license to our existing plant and resumed normal production, contributing HK$5.3 million in sales revenue during the Reporting Period.

PRODUCT DEVELOPMENT

Measured and Disciplined Approach to Maximise R&D Return

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

We continued to make good progress with our product pipeline. During the Reporting Period, a total of 8 products were successfully registered, including recently off-patent central nervous system drug Quetiapine Extended Release Tablet; Cardiovascular drug Trimetazidine Dihydrochloride Modified Released Tablet 35mg, Ezetimibe Tab 10mg and Atorvastatin Calcium Tab. As of the date of this annual report, 14 other new products have completed the development process and testing and have been submitted for approval by Department of Health.

In addition, 24 products have finished the formulation development process and are currently undergoing stability study and test, which will be ready for registration filing in about 6 months at the date of the annual report. Furthermore, 47 products are under the developing stage in our R&D product pipeline, as of the date of this annual report.

Gas chromatography test facilities
at Synco quality control laboratory

Developing Innovative Technologies and Diagnostic Tools

The Group actively explores collaborations with local and overseas research and academic institutions for technology developments and has undertaken several collaborative projects with local and overseas R&D institutions and companies.

Technology Transfer of an Innovative Non-invasive Technology in Prostate Cancer Screening

During the Reporting Period, we have signed a heads of terms with a university spin-off company on the collaborative development of an innovative, non-invasive, accurate diagnostic test of prostate cancer. The collaboration includes the conduct of clinical trials, in-licensing of the technology, scale-up manufacturing, registration, and product commercialisation for global market delivery. A multi-center clinical trial is being undertaken on the comparative study of the innovative technology with the "gold standard" test in clinical practice, i.e., blood prostate-specific antigen ("PSA") level.

This innovative technology aims to provide a reliable alternative of blood PSA level testing in a medical laboratory setting, with the benefits of better patient experiences.

According to Hong Kong Cancer Registry, prostate cancer is among the top 3 cancers with most new cases and top 5 cancers with greatest mortality in men. This innovative technology aims to fill the gap by providing doctors and patients with a more accurate, non-invasive, sensitive and easy-to-use solution for early detection of the disease.

Collaboration Project with HKIB

During the Reporting Period, the modeling and optimisation process has been completed under the project, which will be scaled up to production site for further study in the second phase before the implementation for actual manufacturing process.

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" is a government-funded research project for real-time quality control of manufacturing process, being a new pharmaceutical production technology in Hong Kong which can largely enhance the product quality and efficiency of the manufacturing process.

To further invest in the advanced manufacturing platform technology, a new collaboration project with HKIB was submitted for Innovative & Technology Funding Application. The project will study and explore the technology on the usage of Confocal Raman Microscope on specified manufacturing processes for providing the capability to precisely control and manage the manufacturing process to make sure the complicated formulation, ingredient distribution, and specified in-vivo efficacy can be achieved.

Collaboration with Powder Pharma Coating Inc

We have achieved good progress in our collaborative works on formulation and process developments of the project for the commercial manufacturing of some selected high-value product by using this advanced Electrostatic Coating technologies.

The collaboration can provide a cost-effective solution for manufacturing of some sophisticated coating formulation and manufacturing process, enabling us to apply this new technology to manufacture some "difficult to make" products at lower cost as opposed to conventional techniques.

Collaboration with NAMI

During the Reporting Period, we have tested the commercialised product on extended target subjects, preparing for its clinical studies on the early diagnosis of Alzheimer's disease in collaboration with external parties.

This 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.

Derived from the project, a newly commercialised 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 with encouraging feedback and was highly recognised for its potential on clinical applications because of the technological breakthroughs and its safe nature.

REMUNERATION POLICY

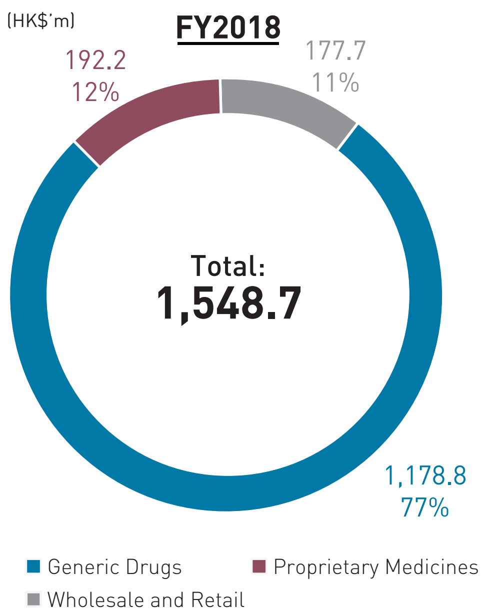
As of 31 March 2018, the Group had a total of 1,743 employees. For the Reporting Period, the total staff cost of the Group was HK$417.1 million as compared to HK$377.9 million for the year ended 31 March 2017. All the Group's employees have entered into standard employment contracts with the Group. Remuneration 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 job functions. It periodically reviews their work performance against the Group's strategic objectives and targets. The results of such reviews are used in salary adjustments, bonus awards, promotion justifications, development plan and training need analysis. The Group provides various benefit schemes to its employees including 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 31 March 2018, 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.

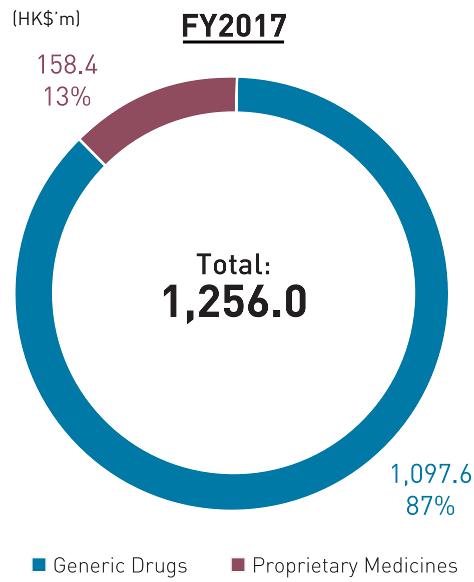
The Group places high values on recruiting, developing and retaining its employees. It maintains high recruitment standards, provides competitive compensation and benefit packages to attract and retain employees. The Group also emphasizes on training and developing employees. In addition to different 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



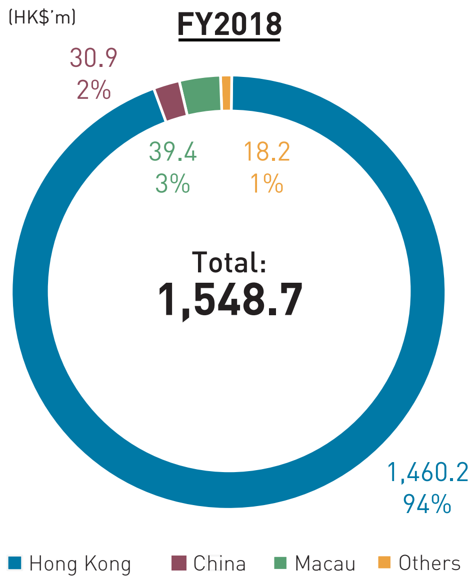


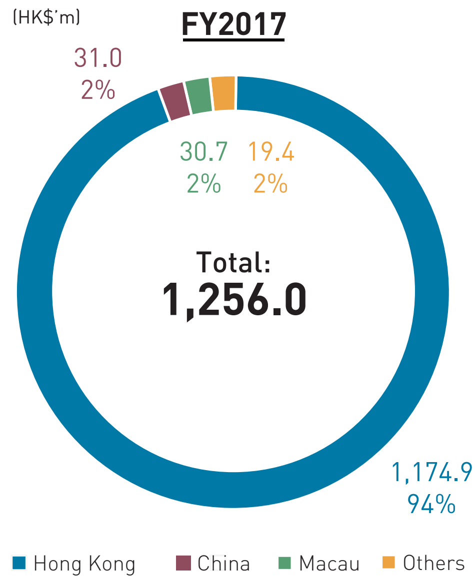
The increase in revenue of HK$292.7 million or 23.3% compared to FY2017 was contributed by the increase in revenue of HK$81.2 million in Generic Drugs, HK$33.8 million in Proprietary Medicines as well as HK$177.7 million from the new Wholesale and Retail segment. Revenue split of the three segments are at the ratio of 77%, 12% and 11%.

In Generic Drugs segment, the increase reflected the higher revenue from both Public Sector and Private Sector, amounted to HK$27.3 million and HK$53.9 million respectively. The growth of revenue in Public Sector was primarily attributed to new tenders business including Ursodeoxycholic Acid Capsules, Simvastatin Tablets, etc., along with the contributions from Medipharma. The growth in Private Sector mainly reflected the rise in average selling price.

In Proprietary Medicines segment, the increase in revenue was mainly contributed by the increase in sales of Ho Chai Kung brand products of HK$48.6 million and Shiling Oil.

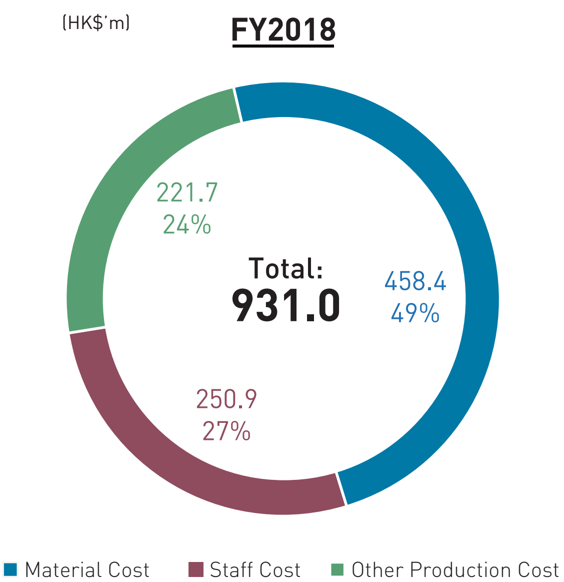
Revenue by Geographic Location

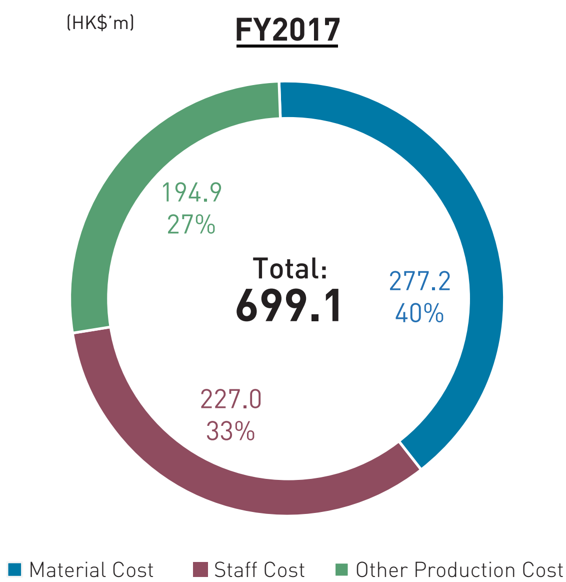




Hong Kong continued to be the major revenue stream, representing 94% of the total revenue and contributed an increase in revenue of HK$285.3 million. The revenue in the Mainland China slightly decreased by HK$0.1 million principally due to the softening of sales of Flying Eagle Woodlok Oil which was offset by the increase in sales of Puji Pills. The revenue increase in Macau by HK$8.7 million was mainly contributed by Ho Chai Kung brand products and an expanded sales base for Generic Drugs. The slight decrease in revenue from other overseas market was mainly due to the decrease in sales in Malaysia while offset by the increase in sales in Canada and South America.

Cost of Sales



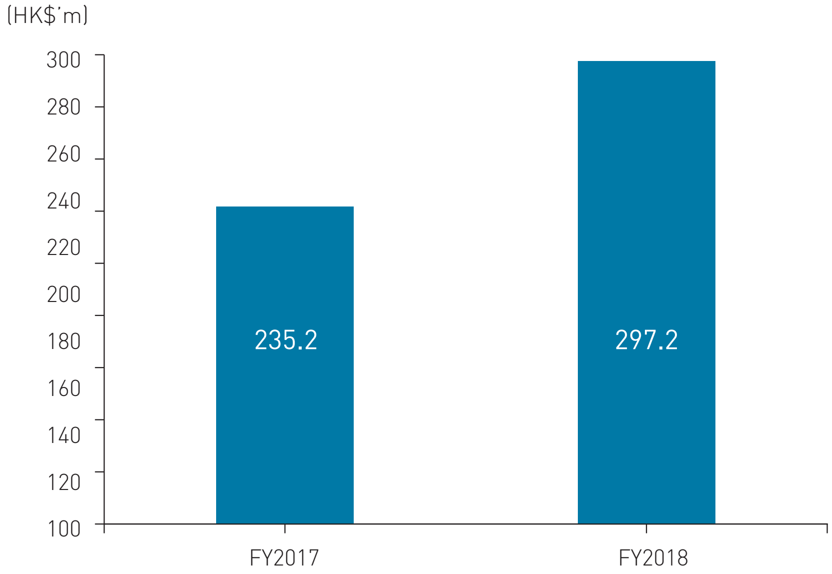


Material cost continued to be the major component in the cost of sales which contributed to approximately 49% of the total cost of sales. The increase in weighting reflected the addition of the new segment of Wholesale and Retail.

The increase in staff cost of HK$23.9 million or by 10.5% reflected the increase in number of headcount primarily due to acquisitions made in the latter half of the previous financial year as well as salary increment.

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 newly acquired production units.

Profit from Operations



The profit from operations rose from HK$235.2 million to HK$297.2 million or by HK$62.0 million or 26.4%. The enhancement in the profit from operations was principally contributed by the increase in gross profit and other income of HK$60.8 million and HK$7.7 million respectively and the decrease in administrative and other operating expenses of HK$15.2 million while offset by the increase in selling and distribution expenses by HK$21.7 million.

The decrease in administrative and other operating expenses is mainly due to one-off listing expenses of HK$22.6 million incurred in FY2017 while offset by the amortisation of share options value amounted to HK$9.7 million during the Reporting Period.

The increase in selling and distribution expenses is mainly due to the acquisitions made in the latter half of the previous financial year and in the Reporting Period.

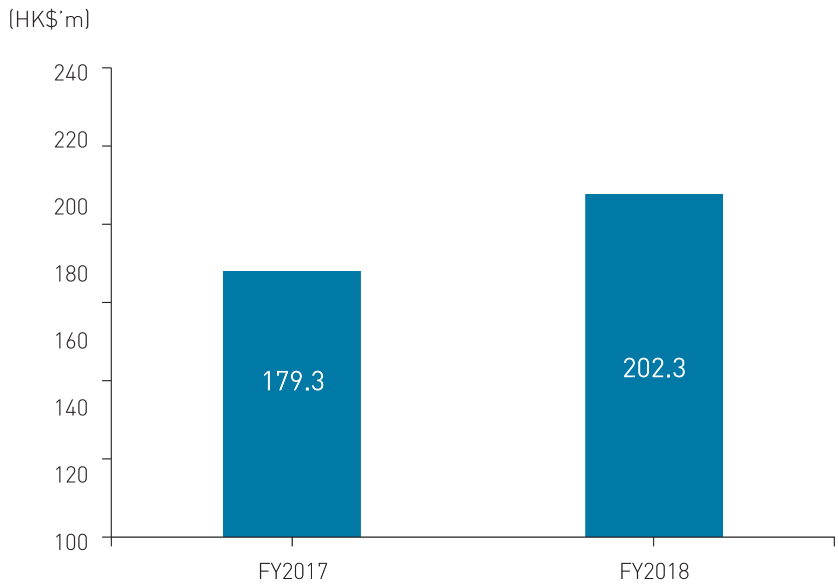
Finance Costs

The increase in finance costs mainly reflected the issuance of convertible notes in the Reporting Period and 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 effective tax rate remained stable in Reporting Period and the previous financial year.

Profit Attributable to Shareholders



The increase in profit attributable to shareholders reflected the increase in profit from operations offset by the additional finance costs and income tax.

Assets

Property, plant and equipment
The decrease in property, plant and equipment principally reflected the depreciation of HK$85.1 million and offset by the additions of HK$60.0 million.

Intangible assets
The increase in intangible assets reflected principally the intangible assets recognised as a result of the acquisition of Hong Ning Hong Group and the capitalisation of development costs 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 commencement of operation of the new production plant.

Cash and cash equivalents
The increase in cash and cash equivalents reflected proceeds from the issuance of convertible notes, which was mainly offset by the use of proceeds mainly in merger and acquisitions.

As at 31 March 2018, around 65.1% 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 decrease in bank loans from HK$937.5 million as at 31 March 2017 to HK$903.9 million as at 31 March 2018 represented certain settlements of bank loans while offset by the additions of bank loans principally for merger and acquisition and capital investment during the Reporting Period.

As at 31 March 2018, 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 31 March 2018:

	Proposed application HK$'000	Actual usage up to 31 March 2018 HK$'000
Acquisitions – Expansion of businesses in Generic Drugs and Proprietary Medicines	139,108	**139,108**
Acquisitions – Enhancement of distribution network	104,331	**8,000**
Acquisitions – Intangible assets	69,554	**69,000**
Capital investments – Upgrading of manufacturing plants and facilities	113,197	**101,300**
Capital investments – Two specific automated production facilities	12,000	**12,000**
Expansion of bioequivalence clinical studies	94,331	**15,630**
Establishment of a new joint R&D centre with HKIB	10,000	**1,533**
Marketing and advertising	83,465	**33,593**
General working capital	69,554	**68,022**
	695,540	**448,186**

Net proceeds of HK$490,352,000 were raised from the issuance of convertible notes (after the deduction of all related fees and expenses paid by us in connection with the convertible notes of HK$9,648,000). The net proceeds are intended to be used for funding potential merger and acquisitions as well as forming strategic alliances in the Asia Pacific region. The proceeds will also be used for supporting in-licensing and direct investment on technologically-oriented bio-pharmaceutical projects. The actual usage up to 31 March 2018 was HK$125,585,000.

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, bank borrowings and the issuance of convertible notes.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

Please refer to note 34 for a material acquisition made after the Reporting Period. The Group did not have any other 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$464.0 million as at 31 March 2018, which was mainly due to investment properties acquired during the Reporting Period amounted to HK$62.0 million were pledged for bank loans to facilitate related acquisitions. Please refer to the section headed "Financial Highlights" for the trend of the net gearing ratio over the past four years.

NET GEARING RATIO

The net gearing ratio of the Group (bank loans and convertible notes less cash and cash equivalents, divided by total equity multiplied by 100%) increased from 32.6% as of 31 March 2017 to 34.6% as of 31 March 2018. The increase in net gearing ratio was attributable to the issuance of convertible notes in the Reporting Period.

FINANCIAL RISK ANALYSIS

Financial risk analysis has been performed as explained in note 29 to the consolidated financial statements. Based on this analysis, management considered that the Group did not have significant exposure to fluctuation in exchange rates and any related hedges.

CONTINGENT LIABILITIES

As of 31 March 2018, the Group did not have any significant contingent liabilities.

Corporate Governance Report

Corporate Governance Practices

The Board of the Company is committed to maintaining high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has applied the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules as its own code of corporate governance.

For the year ended 31 March 2018, 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 code provision A.2.1. Details of the deviation from the code provision A.2.1 is explained in the section headed "Chairman and Chief Executive Officer".

Model Code for Securities Transactions

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as set out in Appendix 10 to the Listing Rules 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.

The Company has also established written guidelines, the Code for Securities Transactions by Employees (the "Employees Code") no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Code by the employees was noted by the Company throughout the Reporting Period.

Board of Directors

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board of Directors (Continued)

BOARD COMPOSITION

The Board currently comprises seven Directors, consisting of three executive Directors, one non-executive Director and three independent non-executive Directors.

The Board of the Company currently comprises the following 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
Mr. Young Chun Man, Kenneth
Professor Wong Chi Kei, Ian

The biographical information of the Directors and the relationships between the members of the Board are set out in the "Directors' Biographies" section of the Report of the Directors of this Annual Report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the Reporting Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Board of Directors (Continued)

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of three years, subject to renewal after the expiry of the then current term.

The Company's Articles of Association provides that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment.

Under the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The retiring Directors shall be eligible for re-election.

In accordance with the Articles of Association, Mr. Sum Kwong Yip, Derek, Mr. Yim Chun Leung and Professor Wong Chi Kei, Ian will retire and being eligible, have offered themselves to be re-elected and re-appointed at the Annual General Meeting of the Company.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board should assume responsibility for leadership and control of the Company and is collectively responsible for management and operations of the Company.

The Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board will also be responsible for the formation of the corporate governance policies of the Group.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company.

The Board delegates the implementation of strategies and day-to-day operation of the Group to the management. The management shall exercise all of the powers, authorities and discretions of the Board in so far as they concern the management and day-to-day operation of the Group in accordance with such policies and directions as the Board may from time to time determine with the exception of matters mentioned above which require the prior approval of the Board.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received formal, comprehensive and tailored induction to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Regular updates and briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the Reporting Period, the Company organized an internal training session in relation to the updates on "(a) new rules on listing of Biotech companies and dual classes companies; (b) enforcement actions against non-compliance; (c) disclosure of inside information; (d) Directors' duties; (e) regulatory training materials prepared by the Stock Exchange and ICAC; and (f) proposed changes in the consultation paper on capital raising by listed issuers". A director's training was also organised by the Company's Hong Kong legal advisor, Shearman & Sterling, for the director appointed during the Reporting Period. In addition, relevant reading materials such as legal and regulatory update and seminar handouts have been provided to the Directors for their perusal and reference where appropriate. The Directors also updated their knowledge relating to the listing rule from the director training webcast launched by the Stock Exchange.

All Directors have provided the Company with a record of the training they received during the Reporting Period and such records were maintained by the Company.

Board Committees

The Board has established committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Executive Committee, for overseeing particular aspects of the Company's corporate governance affairs. All these committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the websites of the Company and the Stock Exchange, which are available to shareholders upon request.

AUDIT COMMITTEE

The Audit Committee currently consists of three independent non-executive Directors, namely Mr. Young Chun Man, Kenneth (Chairman), Dr. Lam Kwing Tong, Alan and Professor Wong Chi Kei, Ian.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code.

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. The Audit Committee, together with the management of the Company, has reviewed the annual results of the Group for the Reporting Period.

The Audit Committee meets at least twice a year in accordance with its terms of reference. Two Audit Committee meetings were held during the Reporting Period and the attendance of each member is set out in the section headed "The Board" of this report.

During the Reporting Period, the Audit Committee performed the works as summarized below:

(i) reviewed and recommended for the Board's approval of the financial reports for the year ended 31 March 2017 and the interim period ended 30 September 2017;

(ii) reviewed the independent auditor's report from the external auditor;

(iii) reviewed the external auditor's independence and objectivity and recommended for the Board's approval on the re-appointment of the auditor;

(iv) reviewed and recommended for the Board's approval of the risk management report discussing the matters, including the major internal audit issues, the financial reporting systems, effectiveness of the internal audit function, risk management and the internal control systems of the Group;

(v) reviewed and recommended for the Board's approval of the updated reports on substantiation of the resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget;

(vi) reviewed, evaluated and assessed of the effectiveness of the Audit Committee and the adequacy of its terms of reference;

(vii) reviewed the compliance with the Deed of Non-competition by the Controlling Shareholders of the Company; and

(viii) reviewed the arrangements for the employees to raise concerns about possible improprieties in financial reporting, internal control or other matters.

During the Reporting Period, the Audit Committee also met the external auditor twice without the presence of the executive Directors.

Board Committees (Continued)

REMUNERATION COMMITTEE

The Remuneration Committee currently consists of three members, namely Dr. Lam Kwing Tong, Alan (Chairman of the Remuneration Committee), Mr. Young Chun Man, Kenneth, independent non-executive Directors, and Ms. Pun Yue Wai, an executive Director.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code.

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of all Directors and senior management with reference to the prevailing market benchmark as well as his/her roles and duties with the Group, the remuneration policy and structure for all Directors and senior management and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

During the Reporting Period, the Remuneration Committee met twice at which the committee members reviewed the remuneration of Directors and evaluated and assessed of the effectiveness of the Remuneration Committee and the adequacy of its terms of reference. The Remuneration Committee also reviewed the remuneration packages of individual executive Directors and senior management, the Company's policy and structure for the remuneration of all directors and senior management and the proposals to grant share awards to certain executive Directors and employees of the Group. In addition, the Remuneration Committee reviewed the letter of appointment for the appointment of Professor Wong Chi Kei, Ian as an independent non-executive Director during the Reporting Period and made recommendation to the Board to approve the same.

In addition to the above Remuneration Committee meetings, the Remuneration Committee also dealt with matters by way of circulation during the Reporting Period.

Details of the remuneration of the Directors and the Chief Executive Officer, the senior management, by band are set out in note 6 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee currently consists of four members, namely Professor Wong Chi Kei, Ian (Chairman of the Nomination Committee), Dr. Lam Kwing Tong, Alan, Mr. Young Chun Man, Kenneth, independent non-executive Directors and Mr. Yim Chun Leung, an executive Director.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board diversity policy, including but not limited to skills, experience and diversity of perspectives that are required to support the execution of its business strategy and to maximize the Board's effectiveness. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider candidates against objective criteria, such as candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the Reporting Period, the Nomination Committee met twice at which the committee members reviewed the structure, size and composition of the Board, the independence of the independent non-executive Directors and the diversity policy. The Nomination Committee also reviewed the qualification of Professor Wong Chi Kei, Ian and nominated him to the Board for his appointment as an independent non-executive Director. In addition, the Nomination Committee also evaluated and assessed the effectiveness of the Nomination Committee and the adequacy of its terms of reference.

Board Committees (Continued)

EXECUTIVE COMMITTEE

The Executive Committee was formed on 22 November 2017 and currently it consists of all the executive Directors, namely Mr. Sum Kwong Yip, Derek (Chairman of the Executive Committee), Mr. Yim Chun Leung and Ms. Pun Yue Wai.

The primary duty of the Executive Committee is to assist the Board of the Company in facilitating more efficient day-to-day operations and business of the Group and to handle such matters as delegated by the Board from time to time.

During the Reporting Period, the Executive Committee met twice at which the committee members reviewed the matters, among others, the latest status and development of business projects of the Group during the Reporting Period.

Board Diversity Policy

The Board Diversity Policy (the "Policy") was adopted by the Company pursuant to the Board resolutions passed on 30 August 2016. The Company is committed to equality of opportunity in all aspects of its business and does not discriminate on the grounds of race, gender, disability, nationality, religious or philosophical belief, age, sexual orientation, family status or any other factor so as to enable the Company to serve its shareholders and other stakeholders going forward.

The Company would enhance the effectiveness of the Board by maintaining the highest standards of corporate governance and recognizing and embracing the benefits of diversity in the boardroom. The Company sees diversity as a wide concept and believes that a diversity of perspectives can be achieved through consideration of a number of factors mentioned above. In forming its perspective on diversity, the Company will also take into account factors based on its own business model and specific needs from time to time.

The Board endeavors to ensure that its Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and to maximize the Board's effectiveness.

Board appointments will continue to be made on a merit basis and candidates will be considered against objective criteria, with due regard for the benefits of diversity on the Board.

The Board will review the Policy on a regular basis to ensure its continued effectiveness and disclose any measureable objectives it has set in this regard, if any.

During the Reporting Period, the Board has reviewed and confirmed the effectiveness of the Policy.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the CG Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report during the Reporting Period.

Board Meetings

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings of the Company held during the Reporting Period is set out in the table below:

	Attendance/Number of Meetings					
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee	Annual General Meeting [3]
Mr. Sum Kwong Yip, Derek *(Chairman)*	5/5	N/A	N/A	N/A	2/2	1/1
Mr. Yim Chun Leung	5/5	N/A	N/A	2/2	2/2	1/1
Ms. Pun Yue Wai	5/5	N/A	2/2	N/A	2/2	1/1
Professor Lam Sing Kwong, Simon	5/5	N/A	N/A	N/A	N/A	1/1
Dr. Lam Kwing Tong, Alan	5/5	2/2	2/2	2/2	N/A	1/1
Mr. Young Chun Man, Kenneth	4/5	2/2	2/2	2/2	N/A	1/1
Professor Wong Chi Kei, Ian [2]	1/1	N/A	N/A	N/A	N/A	N/A
Professor Chow Hee Lum, Albert [1]	4/4	2/2	N/A	2/2	N/A	1/1

Notes:

(1) Professor Chow Hee Lum, Albert resigned as an independent non-executive Director, the chairman of the Nomination Committee and a member of the Audit Committee on 1 December 2017. Four Board meetings, two Audit Committee meetings, two Nomination Committee meetings and the 2017 annual general meeting were held before his resignation.

(2) Professor Wong Chi Kei, Ian was appointed as an independent non-executive Director, the chairman of Nomination Committee and a member of the Audit Committee on 1 December 2017. One Board meeting was held after his appointment.

(3) The 2017 annual general meeting was held on 8 September 2017.

Apart from Board meetings, the Chairman also held a meeting with the non-executive Directors (including independent non-executive Directors) without the presence of other executive Directors during the Reporting Period.

Accountability and Audit

FINANCIAL REPORTING

The Directors acknowledged their responsibility for preparing, with the support from the Finance Department of the Company, the consolidated financial statements of the Group. In preparing the consolidated financial statements for the year ended 31 March 2018, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance have been complied with. The Directors believe that they have selected suitable accounting policies and applied them consistently, and made judgements and estimates that are prudent and reasonable and ensure the consolidated financial statements are prepared on a going concern basis.

The Directors were not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The reporting responsibilities of the Company's external auditor, Messrs. KPMG, are set out in the Independent Auditor's Report on pages 64 to 69 of this Annual Report.

Accountability and Audit (Continued)

RISK MANAGEMENT AND INTERNAL CONTROL

During the Reporting Period, the Group has engaged external consultants to provide assistance in the development of a structured approach to risk management and adopted a risk management policy (the "Risk Management Policy"). The Group has adopted a Risk Management Policy. We highlighted the key features of our structured risk management approach as follows:

I. Risk governance structure

The Group's risk management framework is guided by the "Three Lines of Defense" model as shown below:

Board of Directors
The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic business objectives, and ensuring the Group establishes and maintains appropriate and effective risk management and internal controls systems.

The Board acknowledged its responsibility for the risk management and internal control systems and reviewed their effectiveness.

Risk Management Committee
The Risk Management Committee, comprising both financial and operational executives of the Group, is responsible for overseeing the Group's overall risk management framework and to advise the Audit Committee and the Board on the Group's risk-related matters.

First line of defense
At the first line of defense, operating subsidiaries of the Group, as the risk owners, are responsible for identifying, assessing and monitoring risks associated with each business operation.

Second line of defense
The Risk Management Committee, as the second line of defense, is responsible for assessing relevant risks and carrying out necessary control activities, exercising appropriate supervision to ensure the effectiveness and efficiency of control over activities within and between different departments, and assessing and presenting regular reports to the Audit Committee.

Third line of defense
As the third line of defense, the Internal Audit performs internal audit work on annual basis and ensures that the first and second lines of defense are effective. It provides independent assurance to the Audit Committee and the Board on the adequacy and effectiveness of internal controls for the Group.

Accountability and Audit (Continued)

RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

II. Risk management process

During the Reporting Period, the Group uses a blended top-down and bottom-up approach for identifying risks. Sources of risk, areas of impact, events and their potential consequences are identified. A risk universe has been created to ensure the entire spectrum risks are captured. The identified risks are categorized into Financial, Operational, Reputation, Legal and Regulatory and People.

The Group uses a 5-by-5 risk matrix ("heat map") to assess risks. The risk rating is scored in terms of the consequence and likelihood of occurrence. Risks are rated according to their residual risk levels. Residual risk levels refer to the scoring of risks which exist, taking into account all existing controls. The result from the risk analysis is evaluated to determine whether or not identified risks are within predefined risk appetite and tolerance levels.

Based on the risk evaluation, risks are transferred, eliminated or effectively controlled through proposed risk mitigation measures. Each proposed risk mitigation measure has a designated risk owner and an expected completion date assigned to ensure accountability for risk mitigation, which is documented in the top Risk Record of the Group.

III. Risk monitoring and reporting

We highlighted below the reporting channel and frequency of our key risk reporting activities:

Bottom-up reporting: From operational management to Risk Management Committee

- Any significant risks identified from operating subsidiaries (semi-annually)
- The remediation status of the proposed risk mitigation measure documented in the Top Risk Records (semi-annually)
- Any risks that exceed the risk appetite of the Group (real time)

From the Risk Management Committee to the Audit Committee and the Board

- The remediation status of Top Risks (semi-annually)
- Any updates to the risk universe (semi-annually)
- Update of risk management policy, including risk assessment criteria (annually)
- Top risk identification including top risk dashboard, risk universe and top risk records (annually)
- Any risks that exceed the risk appetite of the Group (real time)

IV. Annual confirmation

The Group's risk management and internal control systems are designed to provide reasonable, but not absolute assurance against material misstatement or loss; to manage rather than completely eliminate the risk of failure to achieve business objectives. It has a key role in the management of risks that are significant to the fulfilment of business objectives. The Board, through the Audit Committee and with the assistance of the Company's external consultants, conducted risk management and internal control reviews of the business operations for the year ended 31 March 2018 and considered it to be effective and adequate the year. The management has provided a confirmation to the Audit Committee and the Board on the effectiveness of these systems for the Reporting Period.

Accountability and Audit (Continued)

INTERNAL AUDIT

The Company's external consultants prepare the Internal Audit Report to the Audit Committee. The internal audit plays an important role in providing assurance to the Board that a sound internal control system is maintained and operated by the management.

The Internal Audit Report was issued to the Audit Committee and the Board for review of the adequacy and effectiveness of the internal audit function which included a discussion on the risk governance structure and the preliminary top risks which the Group is facing. The issues raised in the Internal Audit Report would be addressed and managed promptly by the management, and the Audit Committee and the Board are satisfied that there are adequate risk management and internal control systems in the Company.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company has a policy with regard to the principles and procedures for handling and disseminating the inside information of the Company in compliance with the requirements under Part XIVA of the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong) and the Listing Rules. The policy regulates the handling and dissemination of inside information, which includes:

- designated reporting channel from relevant officers in possession of potential inside information informing such information to the designated persons;

- designated persons to assess the potential inside information and provide advice, and where appropriate, to escalate such information for the attention of the Board to resolve on further actions complying with applicable laws and regulations; and

- restrictive access to inside information to a limited number of employees on a need-to-know basis.

Auditor's Remuneration

The remuneration paid/payable to the external auditor of the Company, Messrs. KPMG, in respect of audit services and non-audit services for the year ended 31 March 2018 were HK$6,380,000 (2017: HK$6,300,000) and HK$2,684,000 (2017: HK$7,314,000) respectively.

Shareholders' Rights

The Company engages with shareholders through various communication channels and a shareholders' communication policy is in place to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

To safeguard shareholder interests and rights, separate resolution would be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AND TO PUT FORWARD PROPOSALS AT AN EXTRAORDINARY GENERAL MEETING

Article 58 of the Company's Articles of Association provides that any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Note: Any such written requisition from the shareholders should be marked "Shareholders' Communication" on the envelope.

Shareholders' Rights (Continued)

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS DIRECTOR

Shareholders may propose a person for election as Director, for detail procedures, please refer to the section "Corporate Governance" under "Investor Relations" on the Company's website (http://www.jacobsonpharma.com/html/ir-governance.php#gov).

PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company and the Company has an investor relation function to attend to enquiries from the shareholders.

CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	Unit 2313-18, 23/F Tower 1, Millennium City 1 388 Kwun Tong Road Kwun Tong, Kowloon Hong Kong
Telephone no.:	(+852) 2267 2298
Email:	Jacobsonpharma@sprg.com.hk
Attention:	Strategic Public Relations Group/Company Secretary

The Company will not normally deal with verbal or anonymous enquiries. For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Communication with Shareholders and Investors

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company endeavors to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries. Auditor of the Company is also invited to attend the Company's annual general meeting pursuant to code provision E.1.2.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors.

During the Reporting Period, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website (http://www.jacobsonpharma.com) and the Stock Exchange's website (http://www.hkex.com.hk).

Environmental, Social and Governance Report

1 About this report

1.1 OVERVIEW

This is the second Environmental, Social and Governance Report (the 'ESG Report') of the Group. This ESG Report provides an annual update on the Group's ESG performance for the year ended 31 March 2018. It is to be read in conjunction with the Group's 2018 Annual Report (http://www.jacobsonpharma.com/html/ir-reports.php#reports), in particular the Corporate Governance Report contained therein.

About Jacobson

Jacobson is one of Hong Kong's largest generic drug companies, representing about 30% share of its total generic drug market since 2012. As a main supplier of generic drugs for the public sector, our supply contributes to approximately 70% of its annual purchase of generic drugs. For the Private Sector, our generic drugs contribute to about 20% of the market shares in Hong Kong. The Group's proprietary medicines (including three main products – Po Chai Pills, Ho Chai Kung Tji Thung San and Tong Tai Chung Woodlok Oil) are also highly recognised. The Group's key business services include distribution, product development and drug manufacturing. In 2017, we have acquired Hong Ning Hong Limited, expanding our business to the area of retail and wholesale of Chinese medicines and pharmaceutical products.

We have a total of eleven (11) production facilities in Hong Kong and one (1) production facility in Zhongshan, China. The principal location of our business is in Hong Kong, which contributes to more than 90% of the Group's total revenue. We also distribute our products to overseas markets, mainly Macau, China and Singapore.

1.2 SCOPE OF THIS REPORT

In this report, we have covered operations and geographical areas as listed below:

Operational Boundary:

- Production, distribution, wholesale, retail and product development of generic drugs and proprietary medicines.

Geographical Boundary:

- All 12 production facilities in Hong Kong and China, as well as our offices and retail outlets in Hong Kong

1.3 REPORTING REFERENCE

This ESG Report is prepared in accordance with the general disclosure requirement of Environmental, Social and Governance Reporting Guide ('ESG Guide') in Appendix 27 of the Listing Rules. The ESG Reporting Guide Content Index that made reference to the relevant information contained in this ESG Report is provided in Appendix A.

1.4 ENDORSEMENT AND APPROVAL

On 25 June 2018, this ESG Report was approved by the Board.

1.5 FEEDBACK TO THE ESG REPORT

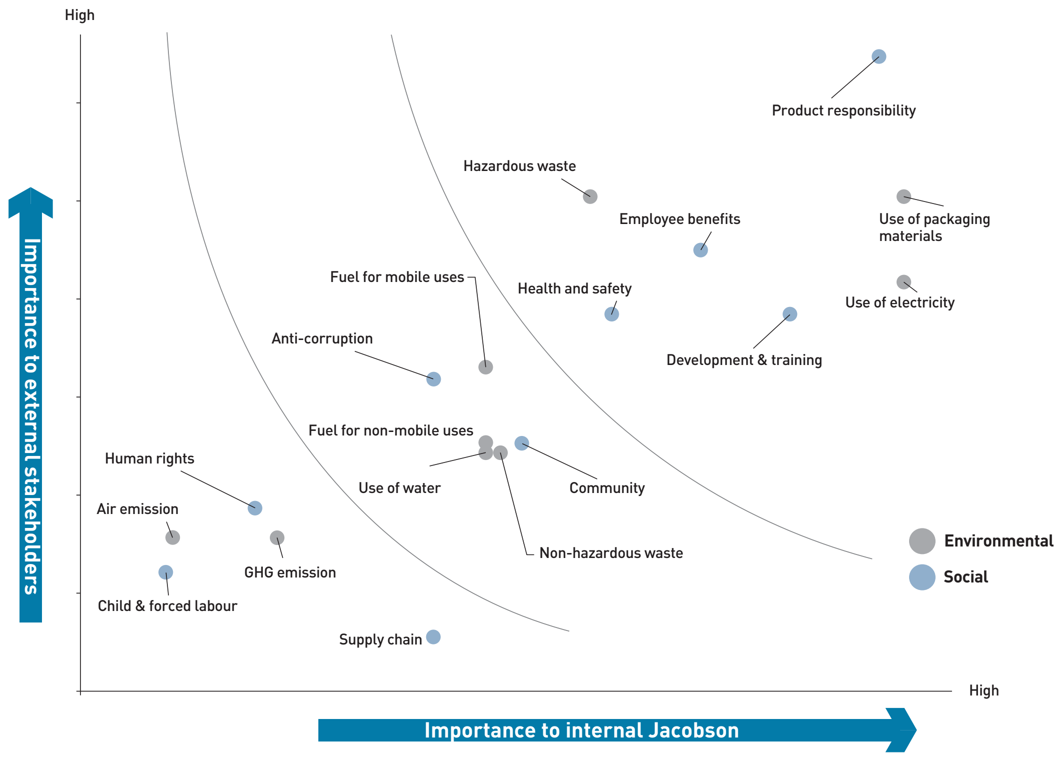
We welcome any comments and suggestions you may have on this ESG Report. You may submit your feedback online: http://www.jacobsonpharma.com/html/contact-us.php. Comments and suggestions regarding the Group's ESG performance are also welcome and can be sent to the Company Secretary.

2 Our Approach to ESG Reporting

2.1 STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

Identifying the materiality of ESG is essential for formulating the Group's ESG strategy. Our material aspects on ESG was identified through stakeholder engagement, which was conducted through interviews and surveys, primarily engaging our top management representatives from various departments and functions. Our stakeholders are not only industry experts but also possess strong pharmaceutical knowledge as well as understanding of the potential risks faced by the industry, such as product responsibility, regulatory requirements and expectations from key clients. We intend to expand our scope of stakeholder engagement exercise in the future to attain a more comprehensive materiality result. The materiality assessment results of the Group are listed below.

Materiality Matrix



Please note that the positioning of the aspects in the matrix suggests only the relative importance of the aspects. Based on the findings from the materiality assessment, the areas identified to be the most significant under environmental and social aspects of the Group are summarised in descending order of importance as follows:

Material Environment Issues	Material Social Issues
Use of packaging materials	Product responsibility
Use of electricity	Development and training
Hazardous waste	Employee benefits
	Health and safety

3 Environment

3.1 ENVIRONMENTAL POLICY

The Group is committed to environmental protection and complying with all applicable environmental laws and regulations in the locations where we conduct our businesses. In addition, we are committed to reducing our environmental impacts through proper management in minimising our environmental emissions and resource consumptions. We strive to adopt environmentally friendly measures in our business operations where practicable. Furthermore, we continue to engage our staff to enhance their awareness in environmental protection.

In accordance with our materiality results, we have mapped the material environmental issues with our operations and summarised them as follows:

Material Environment Issues	Relevance
Use of packaging materials	Material impact on product quality and use of resources
Use of electricity	Energy consumption in manufacturing plants, warehouses and office area
Hazardous waste	Waste chemicals and/or clinical wastes generated from drug production

3.2 USE OF RESOURCES

3.2.1 Use of packaging materials

Packaging material usage is one of the main concerns of the Group as it directly impacts product quality. In our operation, the major packaging materials used are colour boxes, inserts, labels and outer cartons.

The Group has strict controls on both the quality and quantity of packaging materials used. In terms of quality, most of the packaging materials used are produced by GMP-accredited or International Organization for Standardization (ISO) certified manufacturers, which meet local regulatory requirements. To ensure packaging quality, we have designated staff in every production facility to oversee the purchase of packaging materials.

To minimise wastage, we centralise the procurement of packaging materials for all business units and monitor closely their distribution to avoid over ordering or excessive stock-ups. Business units are required to monitor their usage of packaging materials and submit reports on a monthly basis.

Value of packaging material used	Unit	FY2017/2018
Outer carton	HKD	4,093,751
Colour box	HKD	20,583,372
Insert	HKD	2,255,087
Label	HKD	4,442,264

3.2.2 Use of Energy

The Group relies on energy for drug production. Electricity is the main energy source for our Hong Kong operations, and Towngas is also used in two of our manufacturing facilities. Our clean rooms are under stringent and continual temperature and humidity controls, which constitute the most energy-intensive operational aspect among our facilities.

In 2016, we appointed an academic researcher to carry out a pioneer energy saving study at our production facility, Synco (H.K.) Limited ("Synco") in Tai Po. To minimise the energy use, we conducted various trials of testing and commissioning, as well as implemented a set of control strategies, including adjusting the temperature setpoints and damper controls on the 39 air-side systems in the building. During the reporting year, we continued to follow-up on data collection to monitor the outcome, particularly the amount of energy saving, including electricity and town gas consumption, and the respective seasonal variations.

3 Environment (Continued)

3.2 USE OF RESOURCES (Continued)

3.2.2 Use of Energy (Continued)

Based on the results from Synco, we extended the study to Li Chung Shing Tong (Holding) Limited ("Li Chung Shing Tong") and Europharm Laboratories Company Limited ("Europharm"), another two production facilities with a similar setting in Tai Po in 2017. Apart from adjusting the temperature setpoints and damper controls, the energy efficiency study of Li Chung Shing Tong and Europharm also look into optimising the counteraction between its energy use in heating and cooling. A number of monitoring devices have already been installed in the building to keep track of the electricity consumption by different aspects of the facility.

Besides facility-level energy saving studies, we are also retrofitting our existing buildings with LED lighting. In the coming year, the Group will be gradually replacing all traditional fluorescence lighting tubes in all its facilities with LED lights.

In addition to hardware, we believe human behaviour also plays an important role in improving energy efficiencies. We will continue to encourage our employees to adopt an environmentally conscious mindset. Across our premises, green tips are placed at prominent locations to remind our staff to turn off their computers and lighting when not in use.

Use of energy[1]	**Unit**	**FY2017/2018**
Use of electricity	kWh	29,892,002
Intensity of electricity use	kWh/HKD	0.019
Use of Towngas	Unit	13,635,024
Intensity of Towngas use	Unit/HKD	0.0088

3.2.3 Others

Use of Water
Water is essential in our production process, yet it is not the most material issue among the Group's operations in terms of quantity. We use purified water in the drug production processes. We have extremely stringent requirements on water quality and we monitor the water purification system closely to ensure the quality of water is met. Currently, the impact of the volume of freshwater usage in the production process is not significant. However, we will continue to explore opportunities to implement future savings as a good practice in natural resource conservation.

Water consumption[1]	**Unit**	**FY2017/2018**
Use of water	Litre	155,619.3
Intensity of water use	Litre/HKD	0.0001

Use of Fuel (Mobile and Stationary Source)
We mainly distribute our products to hospitals, clinics, retail outlets and trading companies in Hong Kong through our in-house logistic arms. To enhance the efficiency of fuel consumption and reduction of greenhouse gas emissions, most of our trucks are EURO V diesel vehicles. We also implement good routing practices by identifying the most efficient routes for delivery to minimise fuel consumption and delivery time.

Use of Paper
We strive to reduce paper consumption in our operations. In September 2017, we launched a mobile ordering system, which provided a more convenient ordering channel for retail pharmacies. It speeded up the ordering process and helped reduce the use of paper in our sales operations. We also plan to introduce the SAP system to more business units, enabling electronic approval of payments to reduce paper usage.

[1] Intensity figures are calculated using the Group's revenue of HKD1,548.7 million in the Reporting Period.

3 Environment (Continued)

3.3 EMISSIONS

3.3.1 Waste Management

Hazardous Waste

As a drug manufacturer, we must comply with Hong Kong's Waste Disposal Ordinance (Chapter 354) related to the disposal of hazardous waste. The major hazardous wastes produced in our operations are dangerous drugs, poisons and common chemical wastes. The Group has detailed standard operating procedures (SOP) to properly handle and store the hazardous wastes on-site, and keep monthly record of each type of chemical waste disposed.

The disposal of chemical waste is handled by our quality assurance department, which appoints licensed waste collectors for the collection, treatment and disposal of hazardous wastes. For any 'Part A' chemical wastes including waste types: Dangerous Drugs, Poison (Part 1) and Antibiotics, a checklist of waste to be disposed of and a notification under Section 17 for 'Part A' chemical wastes shall be filed and endorsed by the Environmental Protection Department according to the Waste Disposal Ordinance (Chapter 354) prior to the disposal by the licensed waste collectors.

Waste disposal[2]	Unit	FY2017/2018
Hazardous waste disposed	kg	109,297.9
Intensity of hazardous waste disposed	kg/HKD	0.0001

General Waste

General waste generated from offices and production facilities mainly consists of office waste paper and used packaging materials of raw materials purchased. In managing the general waste generated, we seek to achieve the concept of '3Rs' (reduce, reuse and recycle) and strive to raise the environmental awareness of our employees. We also engaged a cleaning contractor to collect and handle the recycling and disposal of general waste. Measures adopted to minimise waste generation include:

- setting up recycling bins for the collection of used paper, cardboard boxes, packing materials, toners and ink cartridges;
- encouraging duplex printing;
- sourcing environment-friendly printing paper (FSC paper); and
- communicating internal memorandum and reports by digital means.

3.3.2 Wastewater Discharge

Wastewater discharge is immaterial to our production, in terms of quality and quantity. Our manufacturing plant in China installed wastewater treatment facilities to fulfill regulatory requirement in China. We do not have on-site wastewater treatment facilities at our production facilities in Hong Kong. The wastewater produced at these facilities is discharged into the public sewer.

3.3.3 Air Emissions

Air emission is immaterial to our production, in terms of quality and quantity. We have air filtration system designed and installed in all fume hoods of Quality Control laboratory to comply with general GMP requirements.

3.4 ENVIRONMENT AND NATURAL RESOURCES

The Group adheres to a production guideline of not using wild endangered species in the production of proprietary medicines. The Group only imports artificially propagated Saussurea costus, which is listed in the Schedule 1 to the Protection of Endangered Species Ordinance, and uses it as an ingredient for manufacturing one of its proprietary medicines. The Group has obtained the relevant licence in accordance with the Protection of Endangered Species of Animals and Plants Ordinance (Chapter 586).

The Group does not currently conduct animal testing in the product development process.

[2] Intensity figures are calculated using the Group's revenue of HKD1,548.7 million in the Reporting Period.

3 Environment (Continued)

3.5 COMPLIANCE STATUS

During the Reporting Period, the Group was neither involved in any significant regulatory non-compliance related to applicable environmental laws and regulations, nor was it involved in any material environmental claims, lawsuits, penalties or administrative sanctions.

4 Product Responsibility

As a pharmaceutical manufacturer, our key focus is to ensure our products are safe, effective and of high quality.

4.1 QUALITY OF PRODUCTS

We have stringent control on regulatory compliance and product quality. We have obtained all the necessary licences, permits and approvals for our production facilities. All our production facilities in Hong Kong are accredited to the PIC/S GMP[4] Guide set forth by the Pharmacy and Poisons Board of Hong Kong since 1 October 2015. In addition, our generic drug manufacturing facility in China is fully implementing the GMP[5] Guide set forth by the China Food and Drug Administration (CFDA).

GMP is a system for ensuring that products are consistently produced and controlled according to quality standard, and compliance to GMP is mandatory in all pharmaceutical manufacturing. This practice ensures manufacturers follow established procedures – from the procurement and management of starting materials; design and maintenance of premises, facilities and equipment; hygiene control; packaging and transportation processes; personnel qualification and training; production processes; quality control to the distribution of products – to achieve a high level of safety and quality standards of all medicines produced.

Product Quality Control and Assurance

During the production process, the quality assurance department and the quality control department work together to comprehensively monitor product quality. The quality assurance department ensures the Group's GMP compliance standard is met and monitors the pharmacovigilance system, which is responsible for the management of adverse drug reaction events. The quality control department ensures necessary and relevant tests are actually carried out as well as materials are neither released for use nor products are released for sale or supply until their quality has been confirmed satisfactory.

After the purchase of raw materials and packaging materials, we perform quality control tests on all such materials and only use qualified materials in the manufacturing process. Then, we manufacture and package the products according to the pre-set and standardised procedures using qualified facilities and equipment. The manufacturing process of each product has been validated to ensure that the process operated within the established parameters can perform effectively and reproducibly to produce a medicinal product meeting its predetermined specification and quality attributes. We perform quality control tests on the full specifications for every batch of finished products. After confirming compliance to product specifications, our authorised person will release the products for sale. In the rare case of product failure, we have established product recall procedures with reference to the Pharmaceutical Products Recall Guidelines issued by the Department of Health of Hong Kong.

The quality control department is responsible for preparing analytical procedures, establishing raw materials and product specifications, and carrying out sampling and analysis. Analytical activities include conducting chemical and physical analyses of the raw materials, intermediate products and finished products; setting up a stability programme; and conducting stability studies to determine storage condition and product shelf life. Microbiological testing and measures have also been adopted and conducted on-site as stipulated by the Department of Health of Hong Kong. Besides the above tasks, the quality control department is also responsible for the verification of manufacturing processes, environmental and water monitoring, method and process validation and equipment calibration.

When we receive raw materials including active pharmaceutical ingredients (APIs), the manufacturers must provide a certificate of analysis confirming that the materials comply with the prescribed specifications. Each lot of raw materials, packaging materials, intermediate products and finished products are quarantined until they have been sampled, tested and released for use by the quality control department. The final release of products from the quarantine area is carried out only when all documents pertaining to the production and control have been reviewed by the heads of the related departments and released by the authorised person. The approved finished products are affixed with the released label ready for distribution.

[4] Pharmaceutical Inspection Co-operation Scheme Good Manufacturing Practices
[5] Good Manufacturing Practices

4 Product Responsibility (Continued)

4.2 PROMOTION AND SALES

We primarily engage in direct sales in Hong Kong and utilise well-established third-party overseas distributors in China, Macau, Singapore, Malaysia, Indonesia and the United States.

Our operations are subject to various laws, rules, regulations and policies in each jurisdiction that we operate. For advertising and labelling of our products, we always adhere to the legal requirement to ensure we do not convey false or misleading messages about our products. As a member of the Hong Kong Association of the Pharmaceutical Industry, we also strictly follow the code of conduct, including the guidelines in drug promotion and sales.

Each of our products has adequate and clear labelling on the package as per regulatory requirements. We follow the 'Guidelines on the Labelling of Pharmaceutical Products' issued by the Department of Health, which ensures our customers understand the caution warnings and how to use the products safely.

For our newly acquired retail business, we source from manufacturers or designated distributors to ensure the goods are genuine. Upon the arrival of the goods, we perform checks to ensure proper labelling and instruction. Goods are normally stored in an air-conditioned place, or under designated temperature as instructed by vendors or product labels. Our staff regularly check the expiry date of goods, and any expired goods will be properly treated. To prevent expired goods from reaching customers, we ensure they are properly marked before disposal. For goods that require special treatment, we seek instructions from the manufacturer.

4.3 COMPLIANCE STATUS

During the Reporting Period, the Group had not recorded any major breach of relevant laws and regulations related to drug quality, labelling, promotion and sales.

5 Supply Chain Management

The Group actively engages its suppliers to the understanding of and compliance with its standards on business ethics, environmental concern, health and safety protection.

The raw materials for our generic drug production are primarily APIs, excipients and packaging materials. Most of our raw materials and packaging materials are produced by GMP-accredited or ISO-certified manufacturers. All of our raw materials are specified and compliant with the relevant standards.

Raw materials for our generic drugs are sourced from over 350 suppliers, primarily located in China, Switzerland, the United Kingdom, Spain, South Korea, India and Taiwan. These suppliers are selected based on a vendor approval process, comprising an on-site audit or audit by questionnaire as well as regular monitoring and review, including qualification assessment and sample testing.

We have designated teams responsible for purchasing raw materials, and we routinely monitor our suppliers for any incidents or regulatory warnings. We also maintain long-term relationships with suppliers of raw materials of proprietary drugs.

As a part of goods distribution and the employee shuttle bus services are outsourced to third-party service providers, we have minimal control over their fuel use and route adopted for the transportation of goods. However, we plan to explore potential opportunities to influence any practices that may impact our operations.

6 Employee

6.1 EMPLOYMENT

The Group has formulated and made available to employees the policies on staff compensation and benefits, recruitment and employment, work attendance, leave, training and development, equal opportunities, anti-bribery and code of conduct.

The Group offers competitive remuneration packages that are comparable to others in the same industry. We regularly review the internal remuneration packages at all levels and collect external remuneration information from the labour market. We strive to create a fair, reasonable and competitive remuneration system based on position, individual skills and competencies, and work performance. Share incentive schemes are also available to employees who make significant contribution to the Group.

Our employees have entered into standard employment contracts with us. Employee remuneration packages comprise the following elements: basic salary, productivity-related incentives and performance-related bonus. Different types of leave including annual, sick, maternity, paternity, marriage, jury/witness duty, compassionate and no pay leave are provided to our employees. We set performance attributes for our employees based on their positions and departments and conduct performance review regularly. The results of such reviews are applied to their salary adjustments, bonus and promotion justifications. We offer various benefit plans to our employees including top-up leave entitlement, as well as medical and life insurances. Our employees in China are unionised as per local labour laws.

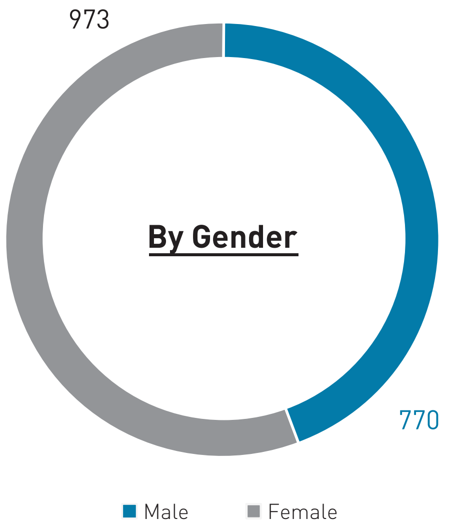
We are committed to creating and promoting a fair and impartial work environment of equal opportunities. We oppose any form of discrimination. Any personal attributes not related to the job requirements shall not affect the employment opportunities and treatment of employees.

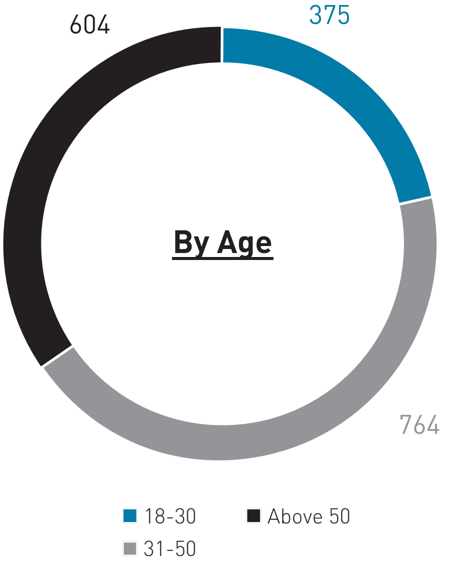
The Group strictly abides by all local legislations such as the Employment Ordinance of Hong Kong, Labour Contract Law and Labour Law of the People's Republic of China. We only recruit employees above the minimum working age and do not tolerate forced labour. During the recruitment process, the age of the candidates is verified with their identification documents to prevent child labour.

Compliance

During the Reporting Period, there was no significant regulatory non-compliance related to remuneration and dismissal, recruitment and promotion, working hours, leave and holidays, equal opportunities, anti-discrimination and other benefits in the Group. In addition, no regulatory non-compliance related to child labour or forced labour prevention was recorded.

Employee composition (as at 31 March 2018)

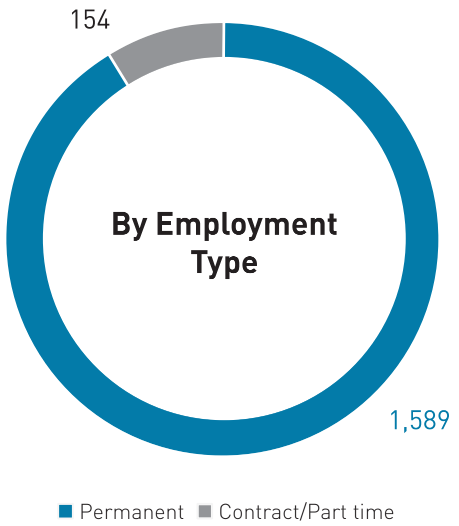


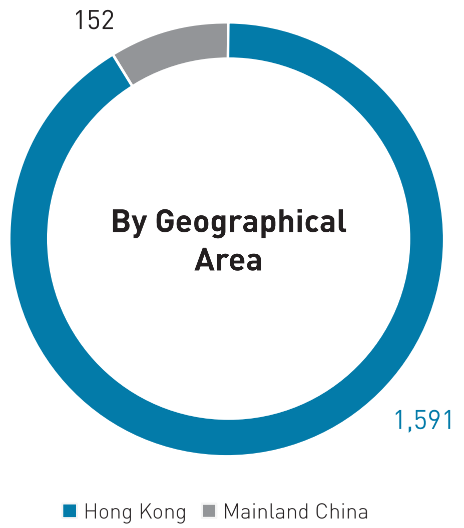


6 Employee (Continued)

6.1 EMPLOYMENT (Continued)

Employee composition (as at 31 March 2018) (Continued)





6.2 DEVELOPMENT AND TRAINING

The Group has in place a policy for staff development and training in the employee handbook. We regard the provision of staff opportunities and room for career development as our responsibility. We nominate employees to participate in internal and external training and development programmes. Employees can also apply for training sponsorship to attend various courses in order to enhance their professional and management skills and knowledge. We also provide general training on manufacturing skills, equipment operations, GMP and PIC/S standards to our production staff.

During the reporting year, our staff attended several external training sessions, including:

- Listening to the Voice from the Western: Opinions on Data Integrity, Computer System Validation (CSV) and Governance Affairs;
- Current and Future Requirements for Technology Transfer and Scale Up; and
- 'Current and Future Requirements for Good (Quantity Control) Laboratory Practices' Training Workshop.

By attending external training sessions, our staff can keep up with the latest development and trends in the industry, and promote the competitive advantages of the Group.

In the event of a vacancy, we try to promote employees from within the Group as a primary policy, and conduct external recruitment only as a supportive measure. Employees who show their competencies and abilities with outstanding performance will be given priority for promotion and development.

Training and development	**Unit**	**FY2017/2018**
Total training hours by employee category		
– Management	Hours	945
– Non-management	Hours	8,262

6 Employee (Continued)

6.3 HEALTH AND SAFETY

Staff health and safety is of utmost importance to the Group. The safety officer at the Group's office closely monitors each premises to enhance the overall safety management. Standard operating procedures on safety for the whole manufacturing process and hazardous chemicals management are available at each manufacturing site to ensure employees are working in line with the safety requirements. Appropriate personal protective equipment (PPE) such as masks and gloves are provided to employees at our manufacturing sites. Fire safety training and drills are also carried out regularly, enabling employees to response rapidly and appropriately in the unlikely event of fire or emergencies.

We constantly provide work safety training to employees to reinforce their safety awareness. The safety officer reviews and updates the safety manual periodically to promote a safer work environment and procedures. The number of accidents at our facilities has declined since 2013.

The Group provides annual physical examination to production employees. On completion of probation, employees are eligible to join the Group medical insurance scheme, which covers in-patient, out-patient and dental benefits.

External Safety audit firm is engaged to conduct safety review in our manufacturing sites and logistics centre annually to ensure the safety policies and procedure are strictly adhered to.

Compliance

During the Reporting Period, there was no significant regulatory non-compliance with the relevant laws and regulations relating to occupational health and safety.

Health and safety	**FY2017/2018**
Total number of fatal cases arising from work accidents	0
Total number of injury cases arising from work accidents	23

6.4 ANTI-CORRUPTION

The Group takes all measures to prevent any bribery, extortion, fraud and money laundering in our business. A policy on bribery prevention is in place and available to employees, which states the Group's commitment to honesty, integrity and fair play. As illustrated in the policy, we prohibit paying or receiving bribes and kickbacks in all commercial transactions. The policy provides clear guidance on the acceptance of gifts, and requires staff to report to the approving authority for unavoidable gift acceptance. When there is a conflict of interest during the discharge of duties, the staff concerned seeks instructions from the approving authority whether to refrain from performing the work. Investigation will be carried out promptly for any suspected incidents of fraud and staff will be dismissed if proven to have committed any fraud. We also encourage staff to report any issues of suspected corruption to the human resources department. In addition, any suspected case of corruption or other criminal offence shall be reported to law enforcement agencies.

Compliance

During the Reporting Period, the Group has not recorded any misconduct or regulatory non-compliance related to bribery, extortion, fraud and money laundering.

7 Community

At Jacobson, we uphold the value of being a good corporate citizen. Our responsibility to society starts with making and providing quality and trusted medicines that make life better for the public. And by doing this well, it allows us to extend our reach and impact of our corporate responsibility efforts, strengthening the communities where we serve and care about.

We seek to support healthcare and education initiatives. We care about vulnerable groups, environmental protection, charitable donations and the like. We have initiated activities related to corporate social responsibility which included supporting the local university pharmacy education, providing scholarships to Hong Kong pharmacy students, and sponsoring and collaborating with research institutes during the Reporting Period.

SPONSORSHIP AND COLLABORATION WITH TERTIARY ACADEMIC AND RESEARCH INSTITUTES

- Providing scholarships for pharmacy students through the established schemes of the HKU Li Ka Shing Faculty of Medicine Jacobson Prizes and Scholarships, and the Chinese University of Hong Kong Faculty of Medicine Scholarships and Prizes.

- Sponsorship and collaboration in on-going research projects with HKIB on advanced pharmaceutical platform manufacturing technologies.

- Sponsorship and collaboration in on-going research project with NAMI on development of a nano diagnostic agent for early detection of Alzheimer's disease.

- Providing internship programs for undergraduate students.

CONTRIBUTIONS TO THE COMMUNITY

- Sponsorship of the production of Hong Kong Breast Cancer Registry Report No. 9 by the Hong Kong Breast Cancer Foundation Limited.

- Sponsorship of the Hong Kong Dermatology Symposium 2017 organised by the Hong Kong Dermatology Foundation.

- Sponsorship of the Hong Kong Pharmaceutical Care Foundation Fundraising Dinner for the provision of pharmaceutical care services to elderly homes and the community.

- Silver sponsor of the Chi Heng Foundation's Walk for Chalk 2017.

- Sponsorship of an event staged by the Chinese Artists Association of Hong Kong.

COMPANY ACTIVITIES AND GIFTS OFFERED TO EMPLOYEES

- Second runner up of the Group's basketball team participating in the HKAPI (The Hong Kong Association of the Pharmaceutical Industry) Basketball Tournament.

- Photo competition with winner awards for employee's participation.

- Distribution of Jacobson desktop calendars and corporate diaries.

A Appendix – HKEX ESG Reporting Guide Index

	Aspects	Section	Remarks
A	**Environmental**		
A1	**Emissions** a) Policies and b) Compliance with relevant laws and regulations that have a significant impact on the issuer Relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	3.3, 3.5	
A1.1	The types of emissions and respective emission data	3.3.3	Air emission is not identified as material to the Group. We will continue to observe regulatory changes to update any disclosures needed in the future.
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	–	Greenhouse gas is not identified as material to the Group. We will continue to observe regulatory changes to update any disclosures needed in the future.
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	3.3.1	
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	–	Non-hazardous waste is not identified as material to the Group. Data is not tracked.
A1.5	Description of measures to mitigate emissions and result achieved	3.3	
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	3.3.1	
A2	**Use of Resources** Policies on the efficient use of resources, including energy, water and other raw materials	3.2	
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000) and intensity (e.g. per unit of production volume, per facility)	3.2.2	
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	3.2.3	
A2.3	Description of energy use efficiency initiatives and result achieved.	3.2.2, 3.2.3	Mobile fuel use is not identified as material to the Group. Data is not tracked.
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	3.2.3	Use of water in terms of quantity is not identified as material to the Group.
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	3.2.1	

A Appendix – HKEX ESG Reporting Guide Index (Continued)

	Aspects	Section	Remarks
A	**Environmental (Continued)**		
A3	**The Environment and Natural Resources**	3.4	
	Policies on minimizing the issuer's significant impact on the environment and natural resources.		
A3.1	Description of the significant impacts of activities on the environment and natural resources and the action taken to manage them	3.4	
B	**Social**		
B1	**Employment**	6.1	
	Policies on employment and compliance with local laws and regulations that have a significant impact on the issuer on the following aspects: • Compensation and dismissal • Recruitment and promotion • Working hours and rest periods • Equal opportunity and anti-discrimination • Diversity • Other benefits and welfare		
B1.1	Total workforce by gender, employment type, age group and geographical region	6.1	
B1.2	Employee turnover rate by gender, age group and geographical region	6.1	
B2	**Health and Safety**	6.3	
	Policies and compliance with relevant laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards.		
B2.1	Number and rate of work-related fatalities	6.3	
B2.2	Lost days due to work injury	6.3	
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	6.3	
B3	**Development and Training**	6.2	
	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		

A Appendix – HKEX ESG Reporting Guide Index (Continued)

	Aspects	Section	Remarks
B	**Social (Continued)**		
B4	**Labour Standard**	6.1	
	Policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		
B4.1	Description of measures to review employment practices to avoid child and forced labour	6.1	
B5	**Supply Chain Management**	5	
	Policies on managing environmental and social risks of the supply chain		
B5.1	Number of suppliers by geographical region	5	
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	5	
B6	**Product Responsibility**	4	
	Policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		
B6.4	Description of quality assurance process and recall procedures	4.1	
B7	**Anti-corruption**	6.4	
	Policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases	6.4	
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	6.4	
B8	**Community Investment**	7	
	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests		
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	7	

Report of the Directors

The Board of Directors of the Company are pleased to present their report and the audited financial statements of the Group for the year ended 31 March 2018.

PRINCIPAL ACTIVITY

The principal activity of the Company is investment holding. The subsidiaries of the Group are principally engaged in the development, production, marketing and sale of generic drugs and proprietary medicines. Details of the principal subsidiaries of the Group are set out in note 13 to the consolidated financial statement.

BUSINESS REVIEW

A fair review of the Group's business, the performance of the Group for the Reporting Period with reference to key financial performance indicators, the particulars of important events and indications of likely future development in the Group's business have been included in the "Letter to Shareholders" and "Management Discussion and Analysis" sections of this Annual Report which form part of this report.

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. Further details on "Risk Management and Internal Control" are set out in the Corporate Governance Report of the Annual Report.

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 impacts 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.

BUSINESS REVIEW (Continued)

KEY RELATIONSHIPS

Customers

The Group is fully aware that as a pharmaceutical manufacturer, it is our key focus to ensure our products are safe, effective and of high quality to our customers. To ensure the quality of products, the Group is fully implementing GMP in accordance with the PIC/S GMP Guide set forth by the Pharmacy and Poisons Board of Hong Kong since 1 October 2015. The Group also established product recall procedures with reference to the Pharmaceutical Products Recall Guidelines issued by the Department of Health of Hong Kong. The Group also designates sales management team to establish and maintain contact with the customers. Our sales representatives conduct regular meetings with key customers to understand the need of the customers and introduce new products to our customers. Customer complaints received by sales representatives will be escalated to management team and be handled accordingly with the aim to achieve customer satisfaction.

Employees

Human resources are crucial to the continued success of the Group. The Group has provided staff with different kinds of benefit and staff compensation. For the personal training and development of our employees, the Group nominates employees to participate in internal and external training and development programs. Employees can also initiate application for training sponsorship for attending different courses to enhance their professional and management skills and knowledge. The Group also provides general training on manufacturing skills, equipment operation, GMP and PIC/S standards to our production staff. Details of our remuneration policy are set out in the "Remuneration Policy" section in the "Management Discussion and Analysis" section.

Suppliers

Quality of products is the most important aspect of the Group and the Group delegates product quality control to our quality assurance department and quality control department, which are mainly responsible for carrying out all necessary and relevant tests on raw materials, intermediate products and finished products. The Group also designates teams responsible for the purchasing of raw materials and vendor approval process is required for our major suppliers of key raw materials for generic drugs, for example on-site audit or audit by questionnaire, and regular monitoring. The Group monitors our suppliers for any incidents or regulatory warnings and also maintains long-term relationships with suppliers of raw materials of proprietary drugs.

Further details are set out in the "Environmental, Social and Governance Report" of this Annual Report.

RESULTS AND DIVIDENDS

The Group's profits for the Reporting Period and the Group's financial position at the end of Reporting Period are set out in the financial statements on pages 70 to 132 of this Annual Report.

The Board recommends to declare a final dividend of HK2.9 cents per share for the FY2018 (2017: final dividend of HK1.4 cents per share), subject to the approval of shareholders at the AGM to be held on 7 September 2018 (Friday), which is expected to be paid on 27 September 2018 (Thursday) to shareholders whose names appear on the register of members of the Company on 17 September 2018 (Monday), being the record date for determining shareholders' entitlement to the proposed final dividend. Including the interim dividend of HK0.9 cent per share paid on 19 December 2017, the total dividend for the FY2018 amounts to HK3.8 cents per share (2017 total dividend: HK2.2 cents per share). The details of final dividend of the Group are set out in note 9 to the consolidated financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, is set out on page 133. This summary does not form part of the audited financial statements.

SHARE CAPITAL AND SHARES ISSUED

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. No Convertible Notes have been converted since completion up to 31 March 2018. For details, please refer to the announcements of the Company dated 6 September 2017 and 3 October 2017.

SHARE CAPITAL AND SHARES ISSUED (Continued)

Details of the share capital and shares issued are set out in note 23 to the consolidated financial statements.

Details on the use of net proceeds are set out in the "Management Discussion and Analysis" section.

DISTRIBUTABLE RESERVES

The reserves available for distribution to the shareholders by the Company at 31 March 2018 consisted of share premium, distributable reserve and retained profits totaling HK$991,643,000. Movements in the reserves of the Company and the Group during the year are set out in note 24 to the consolidated financial statements on page 115 and the Consolidated Statement of Changes in Equity on page 72 respectively.

BORROWINGS

Particulars of borrowings of the Group as at 31 March 2018 are set out in note 21 to the consolidated financial statements.

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.

DIRECTORS

The directors of the Company during the Reporting Period and up to the date of this report were:

Mr. Sum Kwong Yip, Derek*	
(Chairman and Chief Executive Officer)	
Mr. Yim Chun Leung*	
Ms. Pun Yue Wai*	
Professor Lam Sing Kwong, Simon^	
Dr. Lam Kwing Tong, Alan**	
Mr. Young Chun Man, Kenneth**	
Professor Wong Chi Kei, Ian**	(appointed on 1 December 2017)
Professor Chow Hee Lum, Albert**	(resigned on 1 December 2017)

* Executive Director
^ Non-executive Director
** Independent non-executive Director

In accordance with the provisions of the Company's Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. All the directors appointed by the Board shall then be eligible for re-election at the AGM. At the AGM, all Directors will retire and, being eligible, offer themselves for re-election.

During the Reporting Period, Professor Chow Hee Lum, Albert tendered his resignation as an independent non-executive Director of the Company with effect from 1 December 2017 due to his other engagements which require more of his time and attention. He confirmed that he had no disagreement with the Board and that there were no matters that needed to be brought to the attention of the holders of securities of the Company in relation to his resignation.

Save as disclosed above, there was no other Director of the Company tendering resignation, refusing to stand for re-election to office, nor the Company has received any notice in writing from any Director specifying that the resignation or refusal is due to reasons relating to the affairs of the Company.

Pursuant to Rule 3.13 of the Listing Rules, the Company has received a written annual confirmation of independence from each of the existing independent non-executive Directors confirming that they had met the independence guidelines set out in Rule 3.13 of the Listing Rules during the Reporting Period, and as such the Company considered them to be independent.

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 interim report and up to the date of this annual report are set out below:

(a) **Professor Wong Chi Kei**, **Ian**, an independent non-executive Director of the Company, has been appointed as an independent non-executive Director of the Company and the chairman of nomination committee and a member of the audit committee of the Company with effect from 1 December 2017.

DIRECTORS' BIOGRAPHIES

(A) EXECUTIVE DIRECTORS

Mr. Sum Kwong Yip, Derek ("Mr. Sum"), aged 55, is the founder of the Group. Mr. Sum is also an executive Director, chairman of the Board and the chief executive officer since 1 April 2016, chairman of the award committee of the Company since 19 October 2016 and chairman of the executive committee of the Company since 22 November 2017, mainly responsible for overall strategic planning and operation management of the Group. He is also a director of both Queenshill Development Limited and Kingshill Development Limited. He also spearheads the planning of our product development and technological research functions. Mr. Sum joined the Group in September 1998 as managing director, mainly responsible for business management and strategic development. Mr. Sum has around 30 years of sales and corporate management experience in the pharmaceutical industry. Prior to joining the Group, Mr. Sum held various management positions with multi-national corporations. He started his career in pharmaceutical industry with Sandoz Division of Edward Keller Limited in April 1988 and moved on to take up a management position with Watsons Pharmaceutical Limited under Hutchison Whampoa Limited in November 1988. In 1990, Watsons Pharmaceutical Limited was renamed as JDH Pharmaceutical Limited. Since then, Mr. Sum had worked in the Inchcape Group and he was the chief executive of Hong Kong and China of the pharmaceutical division under Inchcape JDH Limited back in 1998 before he embarked upon his entrepreneurial pursuit with the Group. Mr. Sum has been a member of the advisory committee of the school of pharmacy of The Chinese University of Hong Kong since June 2007.

Mr. Sum graduated from Cardiff University (formerly known as the University of Wales) in the United Kingdom with an honorary bachelor's degree in pharmacy in July 1986 and was accredited as a practicing member of The Royal Pharmaceutical Society of Great Britain in August 1987. He was admitted into the registrar as a registered pharmacist under the Pharmacy and Poisons Board of Hong Kong in October 1987.

Mr. Yim Chun Leung ("Mr. Yim"), aged 56, is an executive Director since 1 April 2016, a member of the nomination committee since 21 September 2016, the award committee of the Company since 19 October 2016 and a member of the executive committee of the Company since 22 November 2017. Mr. Yim joined the Group in September 2008 and is also a director of Jacobson Pharma Group (BVI) Limited under the Group. Mr. Yim is mainly responsible for corporate management, strategic development and investor relationship functions of our Group. Mr. Yim has over 31 years of experience in the auditing, accounting and corporate finance fields. He has served and been serving in numerous companies listed on the Main Board. Mr. Yim has been serving as an independent non-executive director of China New City Commercial Development Limited (stock code: 1321) since May 2014 and served as an executive director of LVGEM (China) Real Estate Investment Company Limited (stock code: 95) from December 2004 and its chief executive officer from July 2014, respectively until he resigned in March 2016. From May 2002 to June 2004, Mr. Yim served as the financial controller of Soundwill Holdings Limited (stock code: 878). From December 2000 to February 2002, Mr. Yim served as the chief financial officer of Sinolink Worldwide Holdings Limited (stock code: 1168). From January 1998 to April 1999, Mr. Yim served as an executive director of N P H International Holdings Limited (currently known as Concord New Energy Group Limited, stock code: 182). From January 1994 to January 1998, Mr. Yim served as the finance director of Tysan Holdings Limited (currently known as Hong Kong International Construction Investment Management Group Co., Limited, stock code: 687).

Mr. Yim obtained a degree of master of business administration from the University of Manchester in the United Kingdom in June 2008. He has been a non-practicing member of the Hong Kong Institute of Certified Public Accountants since January 1991, a fellow of the Association of Chartered Certified Accountants since October 1995 and an associate of the Institute of Chartered Accountants in England and Wales since April 2005. Mr. Yim is the brother-in-law of Professor Lam Sing Kwong, Simon, the non-executive Director of the Company.

Ms. Pun Yue Wai ("Ms. Pun"), aged 66, is an executive Director, a member of the remuneration committee of the Company since 1 February 2017 and a member of the executive committee of the Company since 22 November 2017. She is also a vice president of the Company and is mainly in charge of the administration function of the Group. Ms. Pun has joined the Group since August 1998 and is one of the longest-serving employees of the Group. Since joining the Group, Ms. Pun has held various management positions within the Group.

DIRECTORS' BIOGRAPHIES (Continued)

(B) NON-EXECUTIVE DIRECTOR

Professor Lam Sing Kwong, Simon ("Professor Lam"), aged 59, was appointed as a non-executive Director of the Company on 11 April 2016, mainly responsible for advising the Board on corporate strategies and governance development. Professor Lam is currently a professor of Management at the Faculty of Business and Economics of the University of Hong Kong. Professor Lam obtained a doctorate degree in commerce from the Faculty of Economics and Commerce at the Australian National University in April 1996. Professor Lam has published a number of academic papers and case analyses on the topics of corporate strategy, organization development and operations management. Before joining the University of Hong Kong, Professor Lam worked as a regional support manager of a bank.

He has extensive experience in corporate management, strategic development of organizations and corporate finance.

Professor Lam is currently an independent non-executive director of Overseas Chinese Town (Asia) Holdings Limited (stock code: 3366), Sinomax Group Limited (stock code: 1418) and Kwan On Holdings Limited (stock code: 1559), and he also was an independent non-executive director of Glory Flame Holdings Limited (stock code: 8059) from 2 August 2014 to 22 March 2016. From 10 June 2013 to 29 July 2016, he was an independent non-executive director of Beijing Enterprise Clean Energy Group Limited (stock code: 1250). From 8 December 2014 to 22 April 2016, he was an independent non-executive director of Chun Sing Engineering Holdings Limited, whose company name was changed to Huarong Investment Stock Corporation Limited with effect from 30 September 2016, (stock code: 2277) and from 31 July 2014 to 24 June 2016, he was an independent non-executive director of King Force Group Holdings Limited (stock code: 8315), the issued shares of which are listed on the main board or the growth enterprise market of the Stock Exchange. Professor Lam is the brother-in-law of Mr. Yim Chun Leung, an executive Director of the Company.

(C) INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lam Kwing Tong, Alan ("Dr. Lam"), aged 55, is an independent non-executive Director of the Company since 30 August 2016, the chairman of the remuneration committee and a member of the audit committee and the nomination committee respectively of the Company since 21 September 2016. Dr. Lam has been running his private general dental practice in Hong Kong since 1998. Prior to that, Dr. Lam started his own dental practice in April 1989 in London and he sold his dental business in April 1994.

Dr. Lam graduated from the University of Glasgow in the United Kingdom with a bachelor of dental surgery degree in December 1987. He obtained the diploma of member in general dental surgery from the Royal College of Surgeons of Edinburgh in November 1999.

Dr. Lam was granted a Diploma of membership in general dentistry by The College of Dental Surgeons of Hong Kong in November 2013.

Mr. Young Chun Man, Kenneth ("Mr. Young"), aged 54, is an independent non-executive Director of the Company since 30 August 2016, the chairman of the audit committee and a member of the remuneration committee and the nomination committee respectively of the Company since 21 September 2016. Mr. Young is the founder and director of AITIA (HK) CPA LIMITED, a member of TGS Global, since January 2015. Mr. Young is mainly responsible for developing strategies for the growth of the practice, and to implement proper governance and risk management. He has over 17 years of professional experience in audit and accounting fields as a partner at HLB Hodgson Impey Cheng (formerly known as Hodgson Impey Cheng) from September 1994 to March 2011. Mr. Young was an independent non-executive director of Quam Limited (華富國際控股有限公司) (a company listed on the Main Board, stock code: 952, whose company name has been changed from "China Oceanwide International Financial Limited" to "China Tonghai International Financial Limited" and adopted secondary Chinese name "中國通海國際金融有限公司") since September 2012 until February 2017. He has also been serving as a member of the audit committee and a council member of SAHK (香港耀能協會), a charitable organization, since 2013 and 2015, respectively.

Mr. Young obtained a degree of master of corporate finance from The Hong Kong Polytechnic University in November 2004 and a degree of bachelor of arts in economics from University of Essex in the United Kingdom in July 1985. Mr. Young was qualified as a Chartered Accountant in England and Wales in August 1991. He was admitted fellowship of The Hong Kong Institute of Certified Public Accountants in December 2004, and first obtained his Practising Certificate in April 1993. Mr. Young has also been a fellow of The Institute of Chartered Accountants in England and Wales since January 2002, a fellow of The Taxation Institute of Hong Kong since June 2009, a fellow of The Hong Kong Institute of Directors since April 2009, a certified tax adviser of The Taxation Institute of Hong Kong since April 2010 and an ordinary member of the Society of Chinese Accountants & Auditors since 11 December 2015. Mr. Young was a member of the Hong Kong Securities and Investment Institute from 1998 to September 2014 and also held various committee member positions with The Hong Kong Institute of Certified Public Accountants from 1998 to 2014.

DIRECTORS' BIOGRAPHIES (Continued)

(C) INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Professor Wong Chi Kei, Ian ("Professor Wong"), aged 51, is an independent non-executive Director of the Company since 1 December 2017, the chairman of the nomination committee and a member of the audit committee of the Company since 1 December 2017 and a member of the scientific advisory committee of the Company since 2016. Professor Wong is the holder of Lo Shiu Kwan Kan Po Ling Endowed Professorship in Pharmacy and the Head of Department of Pharmacology and Pharmacy, University of Hong Kong.

Prior to his current appointment, Professor Wong was a member of the Pharmacy and Poisons Board of Hong Kong between 2012 and 2014. Professor Wong was the Head of Research Department of Practice and Policy at the UCL School of Pharmacy between 2015 and 2018. He was the Founding Director of the Centre for Paediatric Pharmacy Research between 2002 and 2011, at The School of Pharmacy, UCL Institute of Child Health, University of London and Great Ormond Street Hospital for Children.

A recipient of a UK Department of Health Public Health Career Scientist Award in 2002, Professor Wong is the only pharmacist to date to have received such an award in the UK. He also received the Chemist and Druggist's Pharmacy Practice Research Medal in 2004 for his research in paediatric medicines. In recognition of his work in paediatric medicines research, Professor Wong was awarded an Honorary Fellowship of the Royal College of Paediatrics and Child Health in 2011, and Fellowship of the Royal Pharmaceutical Society in 2012.

Professor Wong qualified as a pharmacist in the UK in 1992 and in Hong Kong in 1993. Professor Wong worked at the former Medicines Control Agency (Regulatory Authority) between 1992 and 1993. His research career began when he took up a research pharmacist post at the David Lewis Centre for Epilepsy to investigate the safety of new antiepileptic drugs between 1994 and 1997. Professor Wong received his PhD from Manchester Medical School in 1998 for his work at the David Lewis Centre. Thereafter, he took up a Lecturer in Pharmacy Practice post at the University of Bradford in 1997, and became Senior Lecturer in 2001.

In association with UCL School of Pharmacy, UCL Institute Child Health, Great Ormond Street Children's Hospital and investors, Professor Wong set up Therakind Ltd in 2007. Therakind Ltd is a private European pharmaceutical company specialising in research and development of medicines for children.

DIRECTORS' EMOLUMENTS

Details of the emoluments of the Directors on a named basis are set out in note 6 to the consolidated financial statements.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

No transactions, arrangements and contracts that was significant in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which any Director of the Company and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the FY2018 or at any time during the FY2018.

INTERESTS IN COMPETING BUSINESS

None of the Directors of the Company had interests in other business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years from 30 August 2016, except Ms. Pun Yue Wai, whose initial term is for two years from 1 February 2017, which shall be terminated by either party giving to the other party at least three months' notice in writing. Each of the non-executive Directors, including the independent non-executive Directors, has entered into a letter of appointment with the Company for a term of three years from 30 August 2016, except Professor Wong Chi Kei, Ian, whose letter of appointment with the Company for a term of three years from 1 December 2017, which shall be terminated earlier by either party serving on the other party one month's notice in writing.

None of the Directors proposed for re-election at the AGM is a party to any service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the Reporting Period.

EQUITY-LINKED AGREEMENTS

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 31 March 2018, the outstanding share options under the Share Option Scheme available for issue of ordinary shares was 138,000,000 shares representing approximately 7.60% of the issued shares of the Company as at the date of this annual 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.

EQUITY-LINKED AGREEMENTS (Continued)

SHARE OPTION SCHEME (Continued)

Since the effective date of the Share Option Scheme and up to 31 March 2018, the Company has granted a total of 37,000,000 share options to eligible grantees, including certain Directors and employees of the Group, on 30 June 2017 and 18 October 2017, while a total of 400,000 share options were lapsed and no share option had been exercised 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 31 March 2018 were as follows:

	Number of share options							
	As at 1 April 2017	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 March 2018	Date of grant	Exercise price per ordinary share	Exercisable period
Directors:								
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
sub-total	-	18,000,000	-	-	18,000,000			
All other employees:	-	18,000,000	-	400,000	17,600,000	30 June 2017	HK$2.06	from 1 October 2017 up to 30 September 2020 in three tranches
	-	1,000,000	-	-	1,000,000	18 October 2017	HK$2.13	from 18 October 2017 up to 17 October 2020 subject to the vesting date on 1 April 2018
sub-total	-	19,000,000	-	400,000	18,600,000			
Grant Total	-	37,000,000	-	400,000	36,600,000			

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. Whereas, the share options granted on 18 October 2017 are valid for three years commencing from 18 October 2017 up to 17 October 2020 and are exercisable subject to the vesting date on 1 April 2018 and any outstanding Options that the grantee has not exercised during the period shall lapse automatically upon the expiry of the period.

EQUITY-LINKED AGREEMENTS (Continued)

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), grantees (including employees of our Group, directors of certain subsidiaries of the Group and certain executive Directors of the Company) were granted share awards entitling the grantees to acquire an aggregate of 17,465,000 ordinary shares of the Company on 19 April 2017 and 22 January 2018 respectively. The number of ordinary shares acquired by Directors under the Share Incentive Scheme during the Reporting Period are as follows:

Name of Executive Director	The number of ordinary shares of the Company acquired under the Share Incentive Scheme on the respective dates of grant		
	19 April 2017	**22 January 2018**	**Total**
Mr. Yim Chun Leung	6,000,000	10,000,000	16,000,000
Ms. Pun Yue Wai	–	240,000	240,000
	6,000,000	10,240,000	16,240,000

Further information on the accounting policy for the share awards granted in the Reporting Period under the Share Incentive Scheme and the values of them are set out in notes 28(A) and 28(B) to the consolidated financial statements respectively.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the Share Option Scheme and the 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.

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 thereby the subscribers agreed to subscribe for the 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 31 March 2018, the aggregate principal amount under the Convertible Notes was HK$500 million. For details, please refer to the announcements of the Company dated 6 September 2017 and 3 October 2017.

DEED OF NON-COMPETITION

On 30 August 2016, the Controlling Shareholders of the Company have entered into a Deed of Non-competition in favor of the Company, pursuant to which the Controlling Shareholders have undertaken to the Group that they would not, and would procure that none of their associates (other than any members of the Group) will directly or indirectly engage in any business which competes or is likely to compete, directly or indirectly, with the Group's business in Hong Kong or any other places in which our Group carried on business (the "Restricted Business").

If there is any new business opportunity in the Restricted Business, the Controlling Shareholders shall refer such new business opportunities to the Group within seven (7) days. Such business opportunity shall have first been offered or made available to the Group and be considered by the independent non-executive Directors or its committees which do not have a material interest in the business opportunity. Each of the Controlling Shareholders shall not invest, participate, be engaged in and/or operate in such business opportunity unless the Board or its committees have declined in writing or failed to respond within six (6) months after being notified of such opportunity.

The Controlling Shareholders have undertaken to the Company that they will, and will procure their respective associates to use their best endeavors to, provide all necessary information for the annual review by the independent non-executive Directors for the enforcement of the Deed of Non-competition and that they will make annual declaration in the annual report on their compliance with the Deed of Non-competition.

The Controlling Shareholders confirmed that they have complied with the Deed of Non-competition for the FY2018. The independent non-executive Directors have conducted a review for the FY2018 and also reviewed the relevant undertakings and are satisfied that the Deed of Non-competition has been fully complied.

PERMITTED INDEMNITY PROVISION

Save for the Directors' and officers' liability insurance and the public offering of securities insurance coverages for the Directors and officers of the Group, no other permitted indemnity provision for the benefit of any Director or who had been a Director of the Company, or of its subsidiaries, where applicable, is in force.

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

As at 31 March 2018, 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[1][2]	Interests in controlled corporation Settlor of trusts Beneficiary of trusts	1,281,499,000	70.58%	Long position
Mr. Yim Chun Leung	Beneficial owner	25,850,000	1.42%	Long position
Ms. Pun Yue Wai	Beneficial owner	1,460,000	0.08%	Long position
Dr. Lam Kwing Tong, Alan	Interests of children under 18 and/or spouse	440,000	0.02%	Long position

Notes:

(1) 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 12,015,000 shares held by The Jacobson Pharma (PTC) Limited. Mr. Sum is also the sole shareholder of Queenshill.

(2) UBS Trustees (B.V.I) 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(II) 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 31 March 2018, 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".

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 (II) 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 31 March 2018, 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 31 March 2018, 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[1]	Beneficial owner Settlor of a trust	273,765,000	15.08%	Long position
Kingshill[2]	Beneficial owner Interest held jointly with another person	1,007,734,000	55.50%	Long position
Longjin[2]	Beneficial owner Interest held jointly with another person	1,007,734,000	55.50%	Long position
Trust Co[3]	Trust holding company	1,007,734,000	55.50%	Long position
UBS Trustees (B.V.I.) Limited[3]	Trustee	1,007,734,000	55.50%	Long position
Mr. Lau[2]	Interest in controlled corporation	1,007,734,000	55.50%	Long position
Mr. Sum[1][3]	Interest in controlled corporation Settlor of trusts Beneficiary of trusts	1,281,499,000	70.58%	Long position

Notes:

(1) 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 12,015,000 shares held by The Jacobson Pharma (PTC) Limited. Mr. Sum is also the sole shareholder of Queenshill.

(2) 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.

(3) 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

(II) 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 31 March 2018, interests in the underlying shares of the Company held through the 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 (Note)	6.17%
Dignari Capital Partners GP Limited	Interest in controlled corporation	112,000,000 (Note)	6.17%
Ms. Tan Mei Zie Grace	Interest in controlled corporation	112,000,000 (Note)	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 31 March 2018, 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.

CONNECTED TRANSACTION

Save for connected transaction which is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules, no other connected transaction that also falls under related party transactions in accordance with the applicable Hong Kong Financial Reporting Standards for preparing these financial statements, details of which are set out in note 32 to the consolidated financial statements. It is confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

For the Reporting Period, the aggregate revenue attributable to the Group's five largest customers was 29.8% (2017: 34.4%) of the total revenue. The largest customer accounted for 24.0% (FY2017: 27.4%) of the Group's revenue.

For the Reporting Period, the aggregate purchases attributable to the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

To the best knowledge of the Directors, neither the Directors, their associates, nor any shareholders who own more than 5% of the Company's issued shares, had any beneficial interest in the Group's five largest customers during the Reporting Period.

REMUNERATION POLICY

Details of the Company's remuneration policy are set out in the section of "Management Discussion and Analysis" of this Annual Report.

RETIREMENT BENEFIT SCHEMES

Details of the Company's retirement benefit schemes are set out in note 4(B) to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued shares was held by the public as at the date of this report.

CHARITABLE DONATION

During the Reporting Period, the Group made a total of HK$40,000 (FY2017: HK$1,010,000) in charitable donations.

AUDITOR

Messrs. KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Messrs. KPMG as auditor of the Company is to be proposed at the forthcoming AGM.

On behalf of the Board

Sum Kwong Yip, Derek
Chairman
Hong Kong, 25 June 2018

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF JACOBSON PHARMA CORPORATION LIMITED
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Jacobson Pharma Corporation Limited ("the Company") and its subsidiaries ("the Group") set out on pages 70 to 132, which comprise the consolidated statement of financial position as at 31 March 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Acquisition accounting

Refer to note 26(A) to the consolidated financial statements and the accounting policies in note 1(H).

The Key Audit Matter	How the matter was addressed in our audit
During the current year, the Group acquired 70% equity interest in Hong Ning Hong Limited and its subsidiary ("the HNH Group") for a cash consideration of HK$56 million, subject to a return of the consideration paid of up to HK$5 million if the profit guarantee for each of the two years ending 31 March 2019 is not met. The principal activity of the HNH Group is the retail and wholesale of proprietary medicines. The Group engaged an external valuation expert to perform a valuation of the fair values of the identifiable assets and liabilities acquired in the acquisition as well as the contingent consideration. Assessing the fair values of the identifiable assets, liabilities acquired and contingent consideration requires the exercise of significant judgement. We identified acquisition accounting for the HNH Group as a key audit matter because of the significant judgements required in the valuation of identifiable assets and liabilities acquired and in particular the estimation of contingent consideration.	Our audit procedures to assess the acquisition accounting for the HNH Group included the following: • inspecting the sales and purchase agreement with the vendor to understand the agreed terms and assessing the Group's acquisition accounting policies with reference to the requirements of the prevailing accounting standards; • inspecting evidence of payments of the consideration to the vendor of the acquisition; • evaluating the experience, competence, objectivity and independence of the external valuation expert engaged by the Group to value the acquired assets and liabilities and contingent consideration; • assessing the process for identifying intangible assets acquired and whether all applicable types of intangible assets had been considered with reference to the guidance in the prevailing accounting standards; • challenging the methodology and key assumptions adopted by the external valuation expert in the estimation of the fair value of each significant individual asset and liability acquired and contingent consideration, which included discussing the valuation with management and comparing the key assumptions with market data, our knowledge of the business, including the Group's business plans supporting the acquisition; • engaging our internal valuation specialists to assist us in assessing the methodology applied in the valuation with reference to the requirements of the prevailing accounting standards and in assessing the discount rate adopted by benchmarking against other comparable companies; • assessing the disclosures in the consolidated financial statements in respect of the acquisition with reference to the requirements of the prevailing accounting standards.

Key Audit Matters (Continued)

Assessing potential impairment of intangible assets

Refer to note 12 to the consolidated financial statements and the accounting policies in note 1(P).

The Key Audit Matter

The carrying value of the Group's intangible assets as at 31 March 2018 totalled HK$1,087 million, which included goodwill of HK$391 million.

Management allocates intangible assets, including goodwill, to separately identifiable cash generating units ("CGUs") and assesses if there are any indicators of impairment of these CGUs.

If any indicators of impairment are identified management will estimate the recoverable amounts of the CGUs using the discounted cash flow method.

For goodwill, intangible assets with indefinite useful lives and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there are any indications of impairment.

Management exercises significant judgement in determining certain key assumptions, including gross margins and the discount rates applied, when preparing the discounted cash flow forecast.

We identified assessing potential impairment of intangible assets as a key audit matter because of the significance of intangible assets to the Group's total assets and because the assessment of potential impairment of intangible assets requires significant management judgement, particularly in estimating the future cash flows, which may be inherently uncertain, and in determining an appropriate discount rate, which could be subject to management bias.

How the matter was addressed in our audit

Our audit procedures to assess the potential impairment of intangible assets included the following:

- evaluating management's identification of CGUs and the allocation of assets to each relevant CGU and assessing the methodology applied by management in its impairment assessments with reference to the requirements of the prevailing accounting standards;
- challenging the key assumptions adopted by management in its preparation of the discounted cash flow forecasts by referring to industry and other available third party information, the recent financial performance of each relevant CGU subject to impairment assessment and management's plans for future operations;
- assessing the discount rates used in the discounted cash flow forecasts by benchmarking against other comparable companies and considering the risks specific to each relevant CGU subject to impairment assessment;
- obtaining from management sensitivity analyses of the key assumptions, including gross margins, adopted in the discounted cash flow forecasts to evaluate the impact on the headroom for each relevant CGU subject to impairment assessment and assessing the impact of changes in the key assumptions to the conclusions reached and whether there are any indicators of management bias;
- comparing the key assumptions included in the discounted cash flow forecasts prepared in the prior year with the current year's performance of each relevant CGU subject to impairment assessment to assess how accurate the prior year's discounted cash flow forecasts were and making enquiries of management as to the reasons for any significant variations identified and whether these have been considered in the current forecasts;
- assessing the disclosures in the consolidated financial statements in respect of management's impairment assessment with reference to the requirements of the prevailing accounting standards.

Information Other Than the Consolidated Financial Statements and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yu Wai Sum.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
25 June 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2018 (Expressed in Hong Kong dollars)

		Year ended 31 March	
	Note	**2018 HK$'000**	2017 HK$'000
Revenue	2	**1,548,684**	1,255,957
Cost of sales		**(931,022)**	(699,069)
Gross profit		**617,662**	556,888
Other income	3	**19,506**	11,740
Selling and distribution expenses		**(167,075)**	(145,350)
Administrative and other operating expenses		**(172,865)**	(188,036)
Profit from operations		**297,228**	235,242
Finance costs	4(A)	**(46,005)**	(13,996)
Profit before taxation	4	**251,223**	221,246
Income tax	5(A)	**(46,323)**	(39,986)
Profit for the year		**204,900**	181,260
Item that may be reclassified to profit or loss:			
Exchange differences on translation of financial statements of operations outside Hong Kong		**3,645**	(1,845)
Other comprehensive income		**3,645**	(1,845)
Total comprehensive income for the year		**208,545**	179,415
Profit attributable to:			
Shareholders of the Company		**202,270**	179,328
Non-controlling interests		**2,630**	1,932
Total profit for the year		**204,900**	181,260
Total comprehensive income attributable to:			
Shareholders of the Company		**205,915**	177,483
Non-controlling interests		**2,630**	1,932
Total comprehensive income for the year		**208,545**	179,415
		HK cents	HK cents
Earnings per share attributable to shareholders of the Company:	8		
– Basic		**11.14**	11.39
– Diluted		**11.14**	11.39

The notes on pages 74 to 132 form part of these financial statements. Details of dividends payable to shareholders of the Company attributable to the profit for the year are set out in note 9.

Consolidated Statement of Financial Position

At 31 March 2018 (Expressed in Hong Kong dollars)

		As at 31 March	
		2018	2017
	Note	**HK$'000**	HK$'000
Non-current assets			
Investment properties	10	**91,000**	–
Other property, plant and equipment	10	**982,270**	1,007,672
Leasehold land	11	**48,041**	48,839
Intangible assets	12	**1,087,140**	1,056,801
Interest in an associate	14	**12,603**	–
Other non-current assets	15	**26,510**	20,420
Other financial assets	18	**117,718**	–
Deferred tax assets	22	**4,191**	2,423
		2,369,473	2,136,155
Current assets			
Inventories	16	**316,323**	261,313
Trade and other receivables	17	**254,797**	201,470
Current tax recoverable		**13,829**	11,444
Cash and cash equivalents	19	**656,733**	359,685
		1,241,682	833,912
Current liabilities			
Trade and other payables	20	**105,553**	108,141
Bank loans	21	**903,872**	937,486
Obligations under finance leases	21	**184**	149
Convertible notes	21	**447,097**	–
Current tax payable		**4,657**	12,713
		1,461,363	1,058,489
Net current liabilities		**219,681**	224,577
Total assets less current liabilities		**2,149,792**	1,911,578
Non-current liabilities			
Obligations under finance leases	21	**660**	373
Deferred tax liabilities	22	**141,157**	138,887
		141,817	139,260
NET ASSETS		**2,007,975**	1,772,318
CAPITAL AND RESERVES			
Share capital	23	**18,156**	18,156
Reserves	25	**1,957,606**	1,731,247
Total equity attributable to shareholders of the Company		**1,975,762**	1,749,403
Non-controlling interests		**32,213**	22,915
TOTAL EQUITY		**2,007,975**	1,772,318

Approved and authorised for issue by the board of directors on 25 June 2018.

Mr. Sum Kwong Yip, Derek
Director

Mr. Yim Chun Leung
Director

The notes on pages 74 to 132 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2018 (Expressed in Hong Kong dollars)

		Attributable to shareholders of the Company							
	Note	Share capital (Note 23) HK$'000	Share premium (Note 25(A)) HK$'000	Capital reserve (Note 25(B)) HK$'000	Exchange reserve (Note 25(C)) HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 April 2016		13,125	6,445	126,645	5,787	754,880	906,882	49,263	956,145
Profit for the year		–	–	–	–	179,328	179,328	1,932	181,260
Other comprehensive income		–	–	–	(1,845)	–	(1,845)	–	(1,845)
Total comprehensive income for the year		–	–	–	(1,845)	179,328	177,483	1,932	179,415
Shares issued under initial public offering and exercise of over-allotment option, net of share issuance expenses	23	5,031	710,613	–	–	–	715,644	–	715,644
Dividends declared in respect of the current year	9	–	–	–	–	(14,525)	(14,525)	–	(14,525)
Dividends paid by subsidiaries attributable to non-controlling interests		–	–	–	–	–	–	(1,192)	(1,192)
Acquisitions of non-controlling interests	27	–	–	(36,081)	–	–	(36,081)	(27,088)	(63,169)
At 31 March 2017		18,156	717,058	90,564	3,942	919,683	1,749,403	22,915	1,772,318
At 1 April 2017		**18,156**	**717,058**	**90,564**	**3,942**	**919,683**	**1,749,403**	**22,915**	**1,772,318**
Profit for the year		**-**	**-**	**-**	**-**	**202,270**	**202,270**	**2,630**	**204,900**
Other comprehensive income		**-**	**-**	**-**	**3,645**	**-**	**3,645**	**-**	**3,645**
Total comprehensive income for the year		**-**	**-**	**-**	**3,645**	**202,270**	**205,915**	**2,630**	**208,545**
Acquisition of subsidiaries	26	**-**	**-**	**-**	**-**	**-**	**-**	**7,021**	**7,021**
Incorporation of a subsidiary with non-controlling interests		**-**	**-**	**-**	**-**	**-**	**-**	**7**	**7**
Dividends approved in respect of the previous year	9	**-**	**-**	**-**	**-**	**(25,419)**	**(25,419)**	**-**	**(25,419)**
Dividends declared in respect of the current year	9	**-**	**-**	**-**	**-**	**(16,341)**	**(16,341)**	**-**	**(16,341)**
Dividends paid by subsidiaries attributable to non-controlling interests		**-**	**-**	**-**	**-**	**-**	**-**	**(360)**	**(360)**
Equity-settled share-based transactions	28	**-**	**-**	**9,734**	**-**	**-**	**9,734**	**-**	**9,734**
Equity element of convertible notes issued	21(C)	**-**	**-**	**52,470**	**-**	**-**	**52,470**	**-**	**52,470**
At 31 March 2018		**18,156**	**717,058**	**152,768**	**7,587**	**1,080,193**	**1,975,762**	**32,213**	**2,007,975**

The notes on pages 74 to 132 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2018 (Expressed in Hong Kong dollars)

	Note	Year ended 31 March 2018 HK$'000	Year ended 31 March 2017 HK$'000
Operating activities			
Cash generated from operations	19(B)	**299,002**	202,782
Income tax paid		**(56,008)**	(39,269)
Net cash generated from operating activities		**242,994**	163,513
Investing activities			
Payment for purchase of property, plant and equipment and intangible assets and other assets		**(86,853)**	(92,354)
Payment for purchase of investment properties		**(78,356)**	–
Proceeds from disposals of property, plant and equipment and leasehold land		**2,178**	3,086
Net cash inflow from disposal of a subsidiary		**–**	3,523
Proceeds from disposal of an intangible asset		**–**	2,512
Proceeds from disposals of investments in key management insurance contracts		**–**	77,692
Net cash outflow from acquisitions of non-controlling interests	27	**–**	(63,169)
Net cash outflow from acquisitions of subsidiaries under business combinations	26	**(38,992)**	(651,138)
Net cash outflow from acquisition of a subsidiary under asset acquisition		**–**	(81,446)
Interest received		**3,947**	718
Prepayment for a business acquisition		**–**	(5,600)
Payment for other financial assets		**(117,718)**	–
Increase in amount due from an associate		**(12,603)**	–
Net cash used in investing activities		**(328,397)**	(806,176)
Financing activities			
Capital element of finance lease rentals paid	19(C)	**(599)**	(817)
Proceeds from bank loans	19(C)	**657,924**	1,136,306
Repayment of bank loans	19(C)	**(691,538)**	(640,132)
Decrease in amounts due to the Controlling Parties		**–**	(36,202)
Borrowing costs paid	19(C)	**(32,475)**	(20,523)
Gross proceeds from shares issued	23	**–**	754,687
Payment for share issuance expenses		**–**	(33,359)
Gross proceeds from issue of convertible notes	19(C) & 21(C)	**500,000**	–
Payment for transaction costs on issue of convertible notes	19(C) & 21(C)	**(9,648)**	–
Dividends paid		**(41,760)**	(239,325)
Dividends paid to non-controlling interests		**(360)**	(1,192)
Net cash generated from financing activities		**381,544**	919,443
Net increase in cash and cash equivalents		**296,141**	276,780
Cash and cash equivalents at the beginning of the year	19(A)	**359,685**	82,925
Effect of foreign exchange rate changes		**907**	(20)
Cash and cash equivalents at the end of the year	19(A)	**656,733**	359,685

The notes on pages 74 to 132 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant Accounting Policies

(A) STATEMENT OF COMPLIANCE

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(E) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(B) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 March 2018 comprise the Company and its subsidiaries and the Group's interest in an associate.

Intra-group balances and transactions are eliminated in full in preparing the consolidated financial statements.

The financial statements have been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group at 31 March 2018. The directors consider this basis of preparation is appropriate having regard to the following factors.

Among the current liabilities, there were bank loans and convertible notes contractually due for repayment after one year of HK$465,120,000 and HK$447,097,000 respectively as at 31 March 2018 (2017: HK$517,258,000 and HK$nil), but have been classified as current liabilities because the loan agreements and subscription agreement of the convertible notes both include a clause that gives the banks the unconditional right to call the bank loans at any time ("repayment on demand clause") and gives the notesholders the right to redeem the convertible notes upon occurrence of events of default ("specific redemption terms") (see notes 21(A) and (C)).

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 nor the notesholders will demand redemption as no events of default are expected to occur. In addition, the directors of the Company have carried out a detailed review of the working capital forecast of the Group for the year ending 31 March 2019. 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.

(C) ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

Judgments made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 35.

1 Significant Accounting Policies (Continued)

(D) BASIS OF MEASUREMENT

The financial statements are presented in Hong Kong dollars ("HK$") and prepared on the historical cost basis except that the following assets and liabilities are stated at their fair values as explained in the accounting policies set out below:

– investment properties (see note 1(K)); and

– contingent consideration receivable (see note 1 (H)).

(E) 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 impact on the accounting policies of the Group. However, additional disclosure has been included in note 19(C) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

(F) SUBSIDIARIES AND NON-CONTROLLING INTERESTS

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has the rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parities) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(T) or 1(U) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 1(G)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(P)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

1 Significant Accounting Policies (Continued)

(G) ASSOCIATES AND JOINT VENTURE

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(I) and (P)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(J)).

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (see note 1(P)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(H) BUSINESS COMBINATIONS

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see note 1(F)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 1P(ii)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (see note 1(J)).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. Contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

1 Significant Accounting Policies (Continued)

(I) GOODWILL

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses (see note 1(P)(ii)). Goodwill arising on a business combination is allocated to cash generating units, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(P)(ii)).

On disposal of a cash generating unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(J) OTHER INVESTMENTS IN EQUITY SECURITIES

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

At the end of each Reporting Period the fair value of investments in equity securities classified as available-for-sale securities is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(P)). Dividend income from equity securities is recognised in profit or loss in accordance with the policies set out in note 1(Z)(iv).

When the investments are derecognised or impaired (see note 1(P)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(K) 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.

1 Significant Accounting Policies (Continued)

(L) PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(P)(ii)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- Machinery and equipment 10–20 years
- Furniture, fixtures and office equipment 4–20 years
- Motor vehicles 4–10 years
- Leasehold improvements Shorter of the lease term or 9–10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(M) CONSTRUCTION-IN-PROGRESS

Construction-in-progress is stated at cost less impairment loss (see note 1(P)(ii)). Cost comprises direct costs of construction during the period of construction and installation. Capitalisation of these costs ceases and the construction-in-progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets of their intended use are substantially complete.

No depreciation is provided in respect of construction-in-progress until it is substantially complete and ready for its intended use.

(N) INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(P)(ii)). Amortisation of intangible assets with finite lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

- Unpatented drugs 30 years
- Customer relationship 15–20 years
- Capitalised development costs 30 years
- Software 5–10 years

Both the period and method of amortisation are reviewed annually.

1 Significant Accounting Policies (Continued)

(N) INTANGIBLE ASSETS (OTHER THAN GOODWILL) (Continued)

Membership represents a club membership. Memberships and trademarks which useful lives are assessed to be indefinite, are not amortised and are stated at cost less impairment losses (see note 1(P)(ii)). Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if it can be demonstrated that the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labor, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(BB)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(P)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

(O) LEASED ASSETS

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in the property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(L). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(P)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

The cost of acquiring land held under an operating lease and land use rights are amortised on a straight-line basis over the period of the lease term, ranging from 20 to 99 years.

1 Significant Accounting Policies (Continued)

(P) IMPAIRMENT OF ASSETS

(i) Impairment of trade and other receivables and investments in equity securities

Trade and other receivables and investments in equity securities that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each Reporting Period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates accounted for under the equity method in the consolidated financial statements (see note 1(G)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(P)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(P)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, i.e. the effective interest rate computed at initial recognition of these assets, where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, the recovery of which is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed.

Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 Significant Accounting Policies (Continued)

(P) IMPAIRMENT OF ASSETS (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each Reporting Period to identify indications that the following assets may be impaired or, except to the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

- property, plant and equipment;
- leasehold land;
- intangible assets;
- goodwill; and
- investment in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, if measurable, or value in use, if determinable.

- Reversals of impairment losses

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(P)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

1 Significant Accounting Policies (Continued)

(Q) INVENTORIES

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first in first out basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When the inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(R) TRADE AND OTHER RECEIVABLES AND INVESTMENTS IN KEY MANAGEMENT INSURANCE CONTRACTS

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(P)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

The investments in key management insurance contracts are initially recognised at fair value and thereafter stated at amortised cost using effective interest method, based on the expected life of the contracts, less impairment (see note 1(P)(i)).

(S) CONVERTIBLE NOTES

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured at fair value based on the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. The equity component is initially recognised at the difference between the fair value of the convertible notes as a whole and the fair value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed. If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

(T) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fee payable, using the effective interest method.

(U) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

1 Significant Accounting Policies (Continued)

(V) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(W) EMPLOYEE BENEFITS

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, staff welfare costs and contributions to defined contribution retirement schemes are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values. The employee benefits are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) Share-based payment arrangements

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(X) INCOME TAX

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the Reporting Period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 Significant Accounting Policies (Continued)

(X) INCOME TAX (Continued)

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(K), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the Reporting Period. Deferred tax assets and liabilities are not discounted.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the Reporting Period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each Reporting Period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 Significant Accounting Policies (Continued)

(Y) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

In the normal course of business, the Group is subject to contingencies, including legal proceedings and claims arising out of business that relate to a wide range of matters, including among others, product liability. The Group records accruals for such contingency based upon the assessment of the probability of occurrence and, where determinable, an estimate of the liability. The Group may consider many factors in making these assessments including past history and the specifics of each matter. Any increase or decrease in the provision would affect profit or loss in future years.

(Z) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised in profit or loss when goods are delivered and the related risks and rewards of ownership are passed to customers. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and sales returns. Accumulated experience is used to estimate and provide for sales returns at time of sales.

(ii) Commission income

Commission income is recognised in profit or loss when the services are rendered.

(iii) Interest income

Interest income is recognised in profit or loss as it accrues using the effective interest method.

(iv) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(AA) TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the Reporting Period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the end of the Reporting Period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences relating to that operation outside Hong Kong is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

1 Significant Accounting Policies (Continued)

(BB) BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(CC) RELATED PARTIES

(1) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(2) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or a joint venture of the other entity (or an associate or a joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(DD) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 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 medicines 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 medicine 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 these financial statements.

(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 is set out below.

	Generic drugs		Proprietary medicines		Wholesale and retail		Total	
	Year ended 31 March		Year ended 31 March		Year ended 31 March		Year ended 31 March	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**1,178,795**	1,097,574	**192,238**	158,383	**177,651**	–	**1,548,684**	1,255,957
Inter-segment revenue	**3,632**	–	**3,850**	–	**–**	–	**7,482**	–
Reportable segment revenue	**1,182,427**	1,097,574	**196,088**	158,383	**177,651**	–	**1,556,166**	1,255,957
Reportable segment profit (adjusted EBITDA)	**330,237**	298,545	**61,965**	30,373	**4,801**	–	**397,003**	328,918

Public Sector refers to all public sector institutions and a number of public clinics in Hong Kong. Private Sector refers to customers not included in Public Sector, which primarily encompasses private hospitals, registered pharmacies, doctors in private and retail outlets.

2 Revenue and Segment Reporting (Continued)

(B) SEGMENT REPORTING (Continued)

(i) Segment revenue and results (Continued)

Information regarding the Group's revenue by business segment and market for the year is set out below:

	Year ended 31 March	
	2018	2017
	HK$'000	HK$'000
Generic drugs		
Public Sector	**371,996**	344,711
Private Sector	**806,799**	752,863
Generic drugs subtotal	**1,178,795**	1,097,574
Proprietary medicines	**192,238**	158,383
Wholesale and retail	**177,651**	–
Total	**1,548,684**	1,255,957

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

	Year ended 31 March	
	2018	2017
	HK$'000	HK$'000
Revenue		
Reportable segment revenue	**1,556,166**	1,255,957
Elimination of inter-segment revenue	**(7,482)**	–
Consolidated revenue	**1,548,684**	1,255,957
Profit		
Reportable segment profit	**397,003**	328,918
Elimination of inter-segment profit	**(4,650)**	–
Reportable segment profit derived from Group's external customers	**392,353**	328,918
Interest income from bank deposits and the investments	**3,947**	718
Other interest income	**–**	1,001
Net gain on disposal of a subsidiary	**–**	2,393
Net gain on disposal of an intangible asset	**–**	1,212
Net gain on disposals of investments in key management insurance contracts	**–**	5,591
Listing expenses	**–**	(22,610)
Depreciation and amortisation	**(112,434)**	(81,981)
Finance costs	**(46,005)**	(13,996)
Fair value gain on investment properties	**12,644**	–
Fair value gain on contingent consideration receivable	**718**	–
Consolidated profit before taxation	**251,223**	221,246

2 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.

	Year ended 31 March	
	2018	2017
	HK$'000	HK$'000
Revenue from external customers		
Hong Kong (place of domicile)	**1,460,205**	1,174,942
China	**30,944**	31,014
Macau	**39,362**	30,661
Singapore	**6,924**	7,935
Others	**11,249**	11,405
	1,548,684	1,255,957

The following table sets out information about the geographical location of the Group's property, plant and equipment, leasehold land, investment properties, intangible assets, prepayment for purchase of non-current assets and interest in an associate ("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, leasehold land and investment properties and the location of the operation to which they are allocated, in the case of intangible assets and non-current prepayments, and the location of operations, in the case of interest in an associate.

	As at 31 March	
	2018	2017
	HK$'000	HK$'000
Specified non-current assets		
Hong Kong (place of domicile)	**2,202,348**	2,103,052
China	**29,676**	30,532
Macau	**122**	148
Cambodia	**14,617**	–
	2,246,763	2,133,732

(iv) Information about major customers

For the year ended 31 March 2018, the Group's customer base includes one customer of 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$371,996,000 (2017: HK$344,711,000).

3 Other Income

	Year ended 31 March	
	2018	2017
	HK$'000	HK$'000
Commission income	**948**	523
Interest income from bank deposits and other investments	**3,947**	718
Other interest income	**–**	1,001
Net foreign exchange gain/(loss)	**492**	(67)
Net gain/(loss) on disposals of property, plant and equipment	**30**	(397)
Fair value gain on investment properties	**12,644**	–
Fair value gain on contingent consideration receivable	**718**	–
Net gain on disposal of a subsidiary	**–**	2,393
Net gain on disposal of an intangible asset	**–**	1,212
Net gain on disposals of investments in key management insurance contracts	**–**	5,591
Others	**727**	766
	19,506	11,740

4 Profit Before Taxation

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

(A) FINANCE COSTS

	Year ended 31 March	
	2018	2017
	HK$'000	HK$'000
Interest on bank loans and other borrowings (note 19(C))	**45,964**	20,466
Finance charges on obligations under finance leases (note 19(C))	**41**	57
	46,005	20,523
Less: Interest expenses capitalised into construction-in-progress and prepayment for acquisition of non-current assets*	**–**	(6,527)
	46,005	13,996

* The borrowing costs had been capitalised at a rate of 3.16% per annum for the year ended 31 March 2017.

(B) STAFF COSTS

	Year ended 31 March	
	2018	2017
	HK$'000	HK$'000
Salaries, wages and other benefits	**390,859**	361,245
Contributions to defined contribution retirement schemes	**16,497**	16,688
Equity-settled share-based payment expenses (note 28)	**9,734**	–
	417,090	377,933

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

4 Profit Before Taxation (Continued)

(B) STAFF COSTS (Continued)

Pursuant to the relevant labor rules and regulations in the PRC, the Group participates in defined contribution retirement benefit scheme (the "Scheme") organised by the relevant local government authority in the PRC whereby the Group is required to make contributions to the Scheme at 20% of the standard wages determined by the relevant authority in the PRC.

The Group has no other material obligation for the payment of pension benefits associated with those schemes beyond the annual contributions described above.

(C) OTHER ITEMS

	Year ended 31 March	
	2018	2017
	HK$'000	HK$'000
Amortisation		
– leasehold land (note 11)	**1,644**	1,494
– intangible assets (note 12)	**25,718**	18,223
Depreciation (note 10)	**85,072**	62,264
Impairment losses on trade and other receivables	**–**	23
Operating lease charges in respect of properties	**70,301**	64,274
Auditors' remuneration*		
– audit services	**6,529**	6,349
– other services	**2,685**	6,763
Research and development costs (other than amortisation of capitalised development costs)	**2,296**	6,342
Cost of inventories# (note 16(B))	**931,022**	699,069

* Apart from the auditors' remuneration charged to consolidated statement of profit or loss of HK$13,112,000, the auditors' remuneration of HK$551,000 had been charged to equity for the year ended 31 March 2017.

Cost of inventories includes HK$368,071,000 for the year ended 31 March 2018 (2017: HK$323,869,000), relating to staff costs, operating lease charges, depreciation and amortisation, which amount is also included in the respective total amounts disclosed separately above or in note 4(B) for each of these types of expenses.

5 Income Tax

(A) INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME REPRESENTS:

	Year ended 31 March	
	2018	2017
	HK$'000	HK$'000
Current tax		
Provision for the year	**44,470**	30,700
Under/(over)-provision in respect of prior years	**1,171**	(455)
	45,641	30,245
Deferred tax		
Origination and reversal of temporary differences	**682**	9,741
	46,323	39,986

5 Income Tax (Continued)

(B) RECONCILIATION BETWEEN TAX EXPENSE AND ACCOUNTING PROFIT AT APPLICABLE TAX RATES:

	Year ended 31 March	
	2018 HK$'000	2017 HK$'000
Profit before taxation	251,223	221,246
Notional tax on profit before taxation calculated at the rate applicable to profits in the tax jurisdiction concerned	41,793	36,146
Effect of non-deductible expenses	6,929	8,245
Effect of non-taxable income	(2,928)	(3,153)
Effect of tax concessions obtained	(236)	(246)
Effect of temporary differences not recognised	(406)	(551)
Under/(over)-provision in prior years	1,171	(455)
Actual tax expense	46,323	39,986

Notes:

(i) The provision for Hong Kong Profits Tax for the year is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2017-18 subject to a maximum reduction of HK$30,000 for each business (2017: a maximum reduction of HK$20,000 was granted for the year of assessment 2016-17 and was taken into account in calculating the provision for 2017).

(ii) Income tax for entities incorporated in other jurisdictions is charged at the appropriate rates of taxation ruling in the relevant jurisdictions.

6 Directors' Emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Year ended 31 March 2018						
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Subtotal HK$'000	Share-based payment (note) HK$'000	Total HK$'000
Executive directors							
Mr. Sum Kwong Yip, Derek	1,200	4,094	–	217	5,511	–	5,511
Mr. Yim Chun Leung	2,400	–	–	120	2,520	1,322	3,842
Ms. Pun Yue Wai	1,116	–	–	–	1,116	441	1,557
Non-executive director							
Professor Lam Sing Kwong, Simon	204	–	–	–	204	–	204
Independent non-executive directors							
Dr. Lam Kwing Tong, Alan	204	–	–	–	204	–	204
Mr. Young Chun Man, Kenneth	204	–	–	–	204	–	204
Professor Wong Chi Kei, Ian	69	–	–	–	69	–	69
Professor Chow Hee Lum, Albert	135	–	–	–	135	–	135
	5,532	4,094	–	337	9,963	1,763	11,726

6 Directors' Emoluments (Continued)

	Year ended 31 March 2017						
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Subtotal HK$'000	Share-based payment (note) HK$'000	Total HK$'000
Executive directors							
Mr. Sum Kwong Yip, Derek	1,818	8,539	299	203	10,859	–	10,859
Mr. Yim Chun Leung	2,400	–	1,600	123	4,123	–	4,123
Mr. Lo Chun Bun	–	497	–	15	512	–	512
Ms. Pun Yue Wai	40	150	–	–	190	–	190
Non-executive director							
Professor Lam Sing Kwong, Simon	200	–	–	–	200	–	200
Independent non-executive directors							
Dr. Lam Kwing Tong, Alan	118	–	–	–	118	–	118
Mr. Young Chun Man, Kenneth	118	–	–	–	118	–	118
Professor Chow Hee Lum, Albert	118	–	–	–	118	–	118
	4,812	9,186	1,899	341	16,238	–	16,238

The directors of the Company were appointed on the following dates:

	Date of appointment	Date of resignation
Executive directors		
Mr. Sum Kwong Yip, Derek	16 February 2016	–
Mr. Yim Chun Leung	1 April 2016	–
Ms. Pun Yue Wai	1 February 2017	–
Mr. Lo Chun Bun	16 February 2016	1 February 2017
Non-executive director		
Professor Lam Sing Kwong, Simon	11 April 2016	–
Independent non-executive directors		
Dr. Lam Kwing Tong, Alan	30 August 2016	–
Mr. Young Chun Man, Kenneth	30 August 2016	–
Professor Wong Chi Kei, Ian	1 December 2017	–
Professor Chow Hee Lum, Albert	30 August 2016	1 December 2017

During the year, there was no amount paid or payable by the Group to the directors or any of the five highest paid individuals as set out in note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office. And there was no arrangement under which a director has waived or agreed to waive any remuneration during the year ended 31 March 2018 (2017: nil).

Note:

These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(W)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "SHARE OPTION SCHEME" in the Report of the Directors and note 28.

7 Individuals With Highest Emoluments

Of the five individuals with the highest emoluments, 2 are directors for the year ended 31 March 2018 (2017: 2) whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	Year ended 31 March	
	2018	2017
	HK$'000	HK$'000
Salaries and other emoluments	**6,305**	6,502
Discretionary bonuses	**124**	245
Retirement scheme contributions	**54**	54
	6,483	6,801

The emoluments of the above individuals with the highest emoluments are within the following bands:

	Year ended 31 March	
	2018	2017
	HK$'000	HK$'000
HK$1,500,001 – HK$2,000,000	**1**	–
HK$2,000,001 – HK$2,500,000	**1**	3
HK$2,500,001 – HK$3,000,000	**1**	–

8 Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of HK$202,270,000 for the year ended 31 March 2018 (2017: HK$179,328,000), and the weighted average ordinary shares in issue calculated as follows:

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES:

	Year ended 31 March	
	2018	2017
	'000	'000
Shares of the Company issued at the beginning of the year	**1,815,625**	1,312,500
Effect of shares issued under initial public offer and exercise of over-allotment option (note 23)	**–**	261,961
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**1,815,625**	1,574,461

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$202,270,000 (2017: HK$179,328,000) and the weighted average of 1,815,625,000 ordinary shares (2017: 1,574,620,000 ordinary shares) in issue during the year, calculated as follows:

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES (DILUTED):

	Year ended 31 March	
	2018	2017
	'000	'000
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**1,815,625**	1,574,461
Effect of dilutive potential ordinary shares – Over-allotment option	**–**	159
Weighted average number of ordinary shares in issue during the year, used in the diluted earnings per share calculation	**1,815,625**	1,574,620

Diluted earnings per share equals to basic earnings per share for the year ended 31 March 2018 because the potential ordinary shares outstanding were anti-dilutive.

9 Dividends

(A) DIVIDENDS PAYABLE TO SHAREHOLDERS ATTRIBUTABLE TO THE YEAR

	Year ended 31 March	
	2018	2017
	HK$'000	HK$'000
Interim dividend declared and paid of HK0.9 cent per share (2017: HK0.8 cent per share)	**16,341**	14,525
Final dividend proposed after the end of the Reporting Period of HK2.9 cents per share (2017: HK1.4 cents per share)	**52,653**	25,419
	68,994	39,944

The final dividend proposed after the end of the Reporting Period 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 YEAR

	Year ended 31 March	
	2018	2017
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK1.4 cents per share (2017: HK$nil)	**25,419**	–

10 Investment Properties and Other Property, Plant and Equipment

(A) RECONCILIATION OF CARRYING AMOUNT

	Buildings HK$'000	Machinery and equipment HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Construction-in-progress HK$'000	Sub-total HK$'000	Investment properties HK$'000	Total HK$'000
Cost:									
At 1 April 2016	63,023	246,679	159,597	13,098	56,918	517,775	1,057,090	–	1,057,090
Additions	–	25,004	11,518	1,931	9,535	29,682	77,670	–	77,670
Acquisition of a subsidiary under asset acquisition	82,731	–	–	–	–	–	82,731	–	82,731
Acquisitions of subsidiaries under business combinations	90,001	4,148	1,976	553	2,895	–	99,573	–	99,573
Disposals	–	(17,640)	(2,775)	(5,619)	(7,860)	–	(33,894)	–	(33,894)
Disposed through disposal of a subsidiary	(714)	–	–	–	–	–	(714)	–	(714)
Transfers	83,854	161,863	313,842	–	(12,102)	(547,457)	–	–	–
Exchange difference	(1,170)	(3,345)	(97)	(21)	(621)	–	(5,254)	–	(5,254)
At 31 March 2017	317,725	416,709	484,061	9,942	48,765	–	1,277,202	–	1,277,202
Accumulated depreciation:									
At 1 April 2016	25,525	115,689	65,496	8,147	26,910	–	241,767	–	241,767
Charge for the year	5,540	28,939	19,911	1,970	5,904	–	62,264	–	62,264
Written back on disposals	–	(15,469)	(2,671)	(4,675)	(7,596)	–	(30,411)	–	(30,411)
Written back on disposal of a subsidiary	(159)	–	–	–	–	–	(159)	–	(159)
Transfers	–	–	4,468	–	(4,468)	–	–	–	–
Exchange difference	(538)	(2,715)	(86)	(21)	(571)	–	(3,931)	–	(3,931)
At 31 March 2017	30,368	126,444	87,118	5,421	20,179	–	269,530	–	269,530
Net book value:									
At 31 March 2017	287,357	290,265	396,943	4,521	28,586	–	1,007,672	–	1,007,672

10 Investment Properties and Other Property, Plant and Equipment (Continued)

(A) RECONCILIATION OF CARRYING AMOUNT (Continued)

	Buildings HK$'000	Machinery and equipment HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Sub-total HK$'000	Investment properties HK$'000	Total HK$'000
Cost:								
At 1 April 2017	317,725	416,709	484,061	9,942	48,765	1,277,202	-	1,277,202
Additions	-	35,729	16,404	3,095	4,814	60,042	78,356	138,398
Acquisitions of subsidiaries under business combinations	-	-	22	-	-	22	-	22
Disposals	-	(23,176)	(6,698)	(2,539)	(19,933)	(52,346)	-	(52,346)
Fair value adjustment	-	-	-	-	-	-	12,644	12,644
Exchange difference	1,941	5,564	159	51	1,039	8,754	-	8,754
At 31 March 2018	319,666	434,826	493,948	10,549	34,685	1,293,674	91,000	1,384,674
Accumulated depreciation:								
At 1 April 2017	30,368	126,444	87,118	5,421	20,179	269,530	-	269,530
Charge for the year	11,508	37,644	30,421	2,146	3,353	85,072	-	85,072
Written back on disposals	-	(21,777)	(6,179)	(2,325)	(19,917)	(50,198)	-	(50,198)
Exchange difference	936	4,867	144	37	1,016	7,000	-	7,000
At 31 March 2018	42,812	147,178	111,504	5,279	4,631	311,404	-	311,404
Net book value:								
At 31 March 2018	276,854	287,648	382,444	5,270	30,054	982,270	91,000	1,073,270

At 31 March 2018 and 2017, certain buildings, machinery and equipment were pledged against bank loans granted to the Group as disclosed in note 21(A)(i).

The Group leases certain motor vehicles and office equipment under finance leases expiring from 1 to 5 years. During the year ended 31 March 2018, the Group entered into finance leases contracts in respect of certain motor vehicles and office equipment with capital value at the inception of the contracts HK$921,000 (2017: HK$nil). At 31 March 2018, the net book value of assets held under finance leases amounted to HK$844,000 (2017: HK$508,000).

10 Investment Properties and Other Property, Plant and Equipment (Continued)

(B) FAIR VALUE MEASUREMENT

(i) Fair value hierarchy

The following table presents the fair value of the Group's property measured at the end of the Reporting Period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement 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

The fair value measurements as at 31 March 2018 was categorised into Level 3 (2017: nil).

During the year ended 31 March 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: nil). 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.

The valuations of investment properties at fair value as at 31 March 2018 (2017: nil) were performed by the Group's independent valuer, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, using the market comparsion method. The Group's management has reviewed the valuation results performed by the independent valuer for financial reporting purposes by verifying all major inputs and assumptions, and assessing the reasonableness of property valuation. Such valuation is performed at each interim and annual reporting date and is reviewed and approved by senior management.

The unobservable input used for the Level 3 fair value measurements:

	As at 31 March	
	2018	2017
(Discount)/premium on quality of the buildings	**(1)% – 5%**	–

The fair value of investment properties is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's buildings compared to the recent sales. Higher premium for higher quality buildings will result in a higher fair value measurement.

The movements during the year in the balance of these Level 3 fair value measurements are disclosed in note 10(A). Fair value adjustment of investment properties is recognised in the line item "other income" in the consolidated statement of profit or loss and other comprehensive income.

11 Leasehold Land

	As at 31 March	
	2018	2017
	HK$'000	HK$'000
Cost:		
At 1 April	**61,723**	63,261
Disposed through disposal of a subsidiary	**–**	(714)
Exchange difference	**1,367**	(824)
At 31 March	**63,090**	61,723
Accumulated amortisation:		
At 1 April	**12,884**	11,843
Charge for the year	**1,644**	1,494
Written back on disposal of a subsidiary	**–**	(159)
Exchange difference	**521**	(294)
At 31 March	**15,049**	12,884
Net book value:		
At 31 March	**48,041**	48,839

At 31 March 2018 and 2017, certain bank borrowings were secured by certain leasehold land as disclosed in note 21(A)(i).

12 Intangible Assets

	Goodwill HK$'000	Memberships HK$'000	Trademarks HK$'000	Unpatented drugs HK$'000	Customer relationship HK$'000	Capitalised development costs HK$'000	Software HK$'000	Total HK$'000
Cost:								
At 1 April 2016	108,507	2,520	55,398	159,149	139,250	5,529	30,823	501,176
Additions	–	–	–	9,221	–	5,375	2,334	16,930
Acquisitions of subsidiaries under business combinations	246,623	–	208,080	45,928	132,082	–	–	632,713
Disposals	–	(1,300)	–	–	–	–	–	(1,300)
At 31 March 2017	355,130	1,220	263,478	214,298	271,332	10,904	33,157	1,149,519
Accumulated amortisation:								
At 1 April 2016	–	–	–	29,559	40,601	–	4,335	74,495
Charge for the year	–	–	–	6,033	9,337	–	2,853	18,223
At 31 March 2017	–	–	–	35,592	49,938	–	7,188	92,718
Net book value:								
At 31 March 2017	355,130	1,220	263,478	178,706	221,394	10,904	25,969	1,056,801

	Goodwill HK$'000	**Memberships HK$'000**	**Trademarks HK$'000**	**Unpatented drugs HK$'000**	**Customer relationship HK$'000**	**Capitalised development costs HK$'000**	**Software HK$'000**	**Total HK$'000**
Cost:								
At 1 April 2017	355,130	1,220	263,478	214,298	271,332	10,904	33,157	1,149,519
Additions	–	–	–	2,558	–	13,010	4,803	20,371
Acquisitions of subsidiaries under business combinations	35,686	–	–	–	–	–	–	35,686
At 31 March 2018	390,816	1,220	263,478	216,856	271,332	23,914	37,960	1,205,576
Accumulated amortisation:								
At 1 April 2017	–	–	–	35,592	49,938	–	7,188	92,718
Charge for the year	–	–	–	7,325	15,308	32	3,053	25,718
At 31 March 2018	–	–	–	42,917	65,246	32	10,241	118,436
Net book value:								
At 31 March 2018	390,816	1,220	263,478	173,939	206,086	23,882	27,719	1,087,140

The amortisation charge of unpatented drugs, customer relationship and software is included in "cost of sales", "selling and distribution expenses" and "administrative and other operating expenses" respectively in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 March 2018 and 2017.

In assessing the useful life of trademarks, due consideration is given to the existing longevity of trademarks, the indefinite life cycle of the industry in which the Group operates and the expected usage of the trademarks in the future. In light of these considerations, no factor could be identified that would result in the trademarks having a finite useful life and accordingly the trademarks have been assessed as having an indefinite useful life.

12 Intangible Assets (Continued)

IMPAIRMENT TESTS FOR CASH GENERATING UNITS CONTAINING GOODWILL AND TRADEMARKS

Goodwill and trademarks are allocated to the Group's cash-generating units ("CGU") in the following business segments:

	As at 31 March	
	2018	2017
	HK$'000	HK$'000
Goodwill		
Generic drugs	**150,781**	150,781
Proprietary medicines	**240,035**	204,349
	390,816	355,130
Trademarks		
Generic drugs	**2,808**	2,808
Proprietary medicines	**260,670**	260,670
	263,478	263,478

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecast prepared by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	As at 31 March	
	2018	2017
Gross margin	**7% – 70%**	16% – 73%
Growth rate	**3%**	3%
Discount rate	**13% – 16%**	14% – 15%

Management determined forecasted gross margin based on past performance and its expectations for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs if the discount rate is not the same for all CGUs in the same segment.

The membership represents a club membership. The directors consider that the recoverable amount of the intangible asset exceeds the carrying amount and therefore no impairment is necessary. The recoverable amount of the intangible asset is estimated by reference to the current open market value less cost to sell as at the end of the Reporting Period.

13 Investment in Subsidiaries

Details of the principal subsidiaries are as follows:

Company name	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by a subsidiary	Principal activities
A-Pharm Medical Limited	Hong Kong	160,000 ordinary shares	–	100%	Trading of pharmaceutical products
APT Pharma (China) Co., Ltd. (note (i)) 雅柏藥業(中國)有限公司	The People's Republic of China	HK$108,600,000	–	100%	Manufacturing and sales of pharmaceutical products
APT Pharma Limited	Hong Kong	8,750,000 ordinary shares	–	100%	Manufacturing and sales of pharmaceutical products
Carewell Pharma Limited	Hong Kong	10,000 ordinary shares	–	100%	Sale of healthcare and herbal products
Charmaine Pharmaceutical Company Limited	Hong Kong	1,100,000 ordinary shares	–	100%	Holding of pharmaceutical licenses
Citi-Ascent Limited	Hong Kong	1 ordinary share	–	100%	Procurement of packaging material
Emperor Kangxi (HK) Pharmaceutical Limited	Hong Kong	10,000 ordinary shares	–	100%	Sale of healthcare and herbal products
Europharm Laboratoires Company Limited	Hong Kong	18,000,009 ordinary shares	–	100%	Manufacturing and sales of pharmaceutical products
Frankin Pharmaceutical Laboratories Company Limited	Hong Kong	440,000 ordinary shares	–	100%	Holding of pharmaceutical licenses
Ho Chai Kung Medicine Manufactory Limited	Hong Kong	10,000 ordinary shares	–	100%	Manufacturing and sales of pharmaceutical products
Hong Ning Hong Limited	Hong Kong	1,000,000 ordinary shares	–	70%	Trading of medicines and drugs
Jacobson Group Management Limited	Hong Kong	10,000 ordinary shares	–	100%	Provision of management services to group companies
Jacobson Group Treasury Limited	Hong Kong	10,000 ordinary shares	–	100%	Provision of treasury services to group companies
Jacobson Medical (Hong Kong) Limited	Hong Kong	26,628,000 ordinary shares	–	100%	Trading of medical supplies and pharmaceutical products
Jacobson Research Laboratory Limited	Hong Kong	10,000 ordinary shares	–	100%	Research and development
Janker Limited	Hong Kong	10,000 ordinary shares	–	100%	Trading of Chinese medicines
Jean-Marie Pharmacal Company Limited	Hong Kong	48,193,657 ordinary shares	–	100%	Manufacturing and sales of pharmaceutical products
Jetstar Company Limited	Hong Kong	10,000 ordinary shares	–	100%	Manufacturing and sales of Chinese medicines
Karen Pharmaceutical Company Limited	Hong Kong	100,000 ordinary shares	–	100%	Manufacturing and sales of pharmaceutical products

13 Investment in Subsidiaries (Continued)

Company name	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by a subsidiary	Principal activities
Li Chung Shing Tong (Holdings) Limited	Hong Kong	500,000 ordinary shares	–	64%	Manufacturing and sales of Chinese medicines
Li Chung Shing Tong (S) Pte Limited	Singapore	50,000 ordinary shares at S$1 each	–	100%	Trading of Chinese medicines
Li Chung Shing Tong (Trading) Limited	Hong Kong	10,000 ordinary shares	–	64%	Trading of Chinese medicines
Ling Chi Medicine (H.K.) Limited	Hong Kong	10,000 ordinary shares	–	100%	Manufacturing and sales of pharmaceutical products and Chinese medicines
Marching Pharmaceutical Limited	Hong Kong	10,000,000 ordinary shares	–	100%	Manufacturing and sales of pharmaceutical products
Marching Pharmaceutical Trading Limited	Hong Kong	10,000 ordinary shares	–	100%	Trading of pharmaceutical products
Medipharma Limited	Hong Kong	47,340 ordinary shares	–	100%	Manufacturing and sales of pharmaceutical products
Melborn Limited (note (ii))	Hong Kong	5,000,000 ordinary shares	–	100%	Properties holding
Neochem Pharmaceutical Laboratories Limited	Hong Kong	3,000,000 ordinary shares	–	100%	Manufacturing and sales of pharmaceutical products
Nice Laboratories Limited	Hong Kong	1,000,000 ordinary shares	–	100%	Holding of pharmaceutical licenses
Pharmason Company Limited	Hong Kong	10,000 ordinary shares	–	100%	Trading of pharmaceutical products
Singmalay Company Limited	Hong Kong	10,000 ordinary shares	–	100%	Manufacturing and sales of Chinese medicines
Synco (H.K.) Limited	Hong Kong	46,800 ordinary shares	–	100%	Manufacturing and sales of pharmaceutical products
Tong Tai Chung Herbs Medicine Manufacturing Limited	Hong Kong	10,000 ordinary shares	–	100%	Inactive
Universal Pharmaceutical Laboratories, Limited	Hong Kong	5,000 ordinary shares	–	100%	Holding of pharmaceutical licenses
Vickmans Laboratories Limited	Hong Kong	661,650 ordinary shares	–	100%	Manufacturing and sales of pharmaceutical products
Vincents Pharma Trading Company Limited	Hong Kong	100,000 ordinary shares	–	100%	Trading of pharmaceutical products

Notes:

(i) The official name of the entity is in Chinese. The English name is for identification purpose only. The company was registered as a wholly foreign-owned enterprise under the PRC law.

(ii) The Group acquired this entity at a consideration of HK$81.8 million in January 2017 for the purpose of acquiring the production premise held by this entity. This acquisition was classified as an asset acquisition.

14 Interest in an Associate

The following list contains the particulars of the associate, which is an unlisted corporate entity whose quoted market price is not available:

				Proportion of ownership interest			
Name of associate	**Form of business structure**	**Place of incorporation and business**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the company**	**Held by a subsidiary**	**Principal activity**
JCSHK Investment Co., Ltd.	Incorporated	Cambodia	8,500 ordinary shares of Cambodian riel ("KHR") 4,000,000 each	49%	–	49%	Property holding (Note 1)

Note 1: JCSHK Investment Co., Ltd. operates in Cambodia and is a strategic partner for the Group in the Cambodia market, enables the Group to have exposure to this market through local expertise.

The associate is accounted for using the equity method in the consolidated financial statements.

As at 31 March 2018, the Group's share of share capital has not been paid up and the associate has not commenced operation.

The interest in an associate of HK$12,603,000 as at 31 March 2018 (2017: HK$nil) represented the amount due from the associate. The amount is unsecured, interest-free and have no fixed terms of repayment. The directors regard this amount as an non-current asset as they do intend to request repayment of these amounts within twelve months of the end of the Reporting Period.

15 Other Non-Current Assets

	As at 31 March	
	2018 HK$'000	2017 HK$'000
Contingent consideration receivable (note 26(A))	**801**	–
Prepayment for purchase of non-current assets	**25,709**	14,820
Prepayment for business acquisition	**–**	5,600
	26,510	20,420

16 Inventories

(A) INVENTORIES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION COMPRISE:

	As at 31 March	
	2018	2017
	HK$'000	HK$'000
Raw materials	**116,442**	106,091
Work in progress	**22,175**	20,495
Finished goods	**177,706**	134,727
	316,323	261,313

(B) THE ANALYSIS OF THE AMOUNT OF INVENTORIES RECOGNISED AS AN EXPENSE AND INCLUDED IN PROFIT OR LOSS IS AS FOLLOWS:

	Year ended 31 March	
	2018	2017
	HK$'000	HK$'000
Carrying amount of inventories sold	**921,455**	693,114
Write-down of inventories	**9,567**	5,955
	931,022	699,069

17 Trade and Other Receivables

	As at 31 March	
	2018	2017
	HK$'000	HK$'000
Trade receivables	**197,410**	154,314
Other receivables	**5,661**	2,762
Contingent consideration receivable (note 26(A))	**3,846**	–
Deposits and prepayments	**47,880**	44,394
	254,797	201,470

At 31 March 2018, the deposits and prepayments expected to be recovered after more than one year amounted to HK$16,927,000 (2017: HK$17,823,000). The remaining trade and other receivables are expected to be recovered within one year.

At 31 March 2018 and 2017, certain bank borrowings were secured by trade receivables as disclosed in note 21(A)(i).

The Group normally allows a credit period of 0-90 days to its customers. Further details on the Group's credit policy are set out in note 29(A).

(A) AGEING ANALYSIS

As at the end of the Reporting Period, the ageing analysis of trade receivables (which are includes in trade and other receivables) based on the invoice date and net of allowance for doubtful debts, is as follows:

	As at 31 March	
	2018	2017
	HK$'000	HK$'000
Less than 1 month	**113,372**	102,616
1 to 6 months	**74,955**	51,698
Over 6 months	**9,083**	–
	197,410	154,314

17 Trade and Other Receivables (Continued)

(B) IMPAIRMENT OF TRADE RECEIVABLES

As at 31 March 2018, none of the Group's trade receivables were determined to be impaired (2017: Nil).

The aging analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	As at 31 March	
	2018 **HK$'000**	2017 HK$'000
Neither past due nor impaired	**106,975**	94,753
Less than 1 month past due	**65,708**	48,764
1 to 3 months past due	**14,647**	10,118
Over 3 months past due	**10,080**	679
	197,410	154,314

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

18 Other Financial Assets

	As at 31 March	
	2018 **HK$'000**	2017 HK$'000
Available-for-sale equity securities (unlisted)	**117,718**	–

The available-for-sale equity securities (unlisted) do not have a quoted market price in an active market and their fair values cannot be reliably measured. They are recognised at cost less impairment losses.

19 Cash and Cash Equivalents and Other Cash Flow Information

(A) CASH AND CASH EQUIVALENTS COMPRISE:

	As at 31 March	
	2018 **HK$'000**	2017 HK$'000
Cash at bank and on hand	**656,733**	359,685

19 Cash and Cash Equivalents and Other Cash Flow Information (Continued)

(B) RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS:

		Year ended 31 March	
	Note	2018 HK$'000	2017 HK$'000
Operating activities			
Profit before taxation		251,223	221,246
Adjustments for:			
Depreciation and amortisation		112,434	81,981
Net (gain)/loss on disposals of property, plant and equipment and leasehold land	3	(30)	397
Net gain on disposal of a subsidiary	3	–	(2,393)
Net gain on disposal of an intangible asset	3	–	(1,212)
Net gain on disposals of investments in key management insurance contracts	3	–	(5,591)
Finance costs	4(A)	46,005	13,996
Interest income from bank deposits and other investments	3	(3,947)	(718)
Other interest income	3	–	(1,001)
Insurance premium for key management insurance contracts		–	1,350
Fair value gain on investment properties	3	(12,644)	–
Fair value gain on contingent consideration receivable	3	(718)	–
Equity-settled share-based payment expenses	4(B)	9,734	–
Operating profit before changes in working capital		402,057	308,055
Increase in inventories		(38,940)	(48,815)
Increase in trade and other receivables		(50,935)	(44,480)
Decrease in trade and other payables		(13,180)	(11,978)
Cash generated from operations		299,002	202,782

19 Cash and Cash Equivalents and Other Cash Flow Information (Continued)

(C) RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans HK$'000 (note 21(A))	**Finance leases** HK$'000 (note 21(B))	**Convertible notes** HK$'000 (note 21(C))	**Total** HK$'000
At 1 April 2017	937,486	522	–	938,008
Changes from financing cash flows:				
Capital element of finance lease rentals paid	–	(599)	–	(599)
Proceeds from bank loans	657,924	–	–	657,924
Repayment of bank loans	(691,538)	–	–	(691,538)
Borrowing costs paid	(28,119)	(41)	(4,315)	(32,475)
Gross proceeds from issue of convertible notes	–	–	500,000	500,000
Payment for transaction costs on issue of convertible notes	–	–	(9,648)	(9,648)
Total changes from financing cash flows	(61,733)	(640)	486,037	423,664
Other changes:				
New finance leases (note 10)	–	921	–	921
Finance charges on obligations under finance leases (note 4(A))	–	41	–	41
Interest expenses (note 4(A))	28,119	–	17,845	45,964
Charged to capital reserve	–	–	(52,470)	(52,470)
Increase in accrued interests	–	–	(4,315)	(4,315)
Total other changes	28,119	962	(38,940)	(9,859)
At 31 March 2018	903,872	844	447,097	1,351,813

20 Trade and Other Payables

	As at 31 March	
	2018	2017
	HK$'000	HK$'000
Trade payables	**35,188**	40,894
Salary and bonus payables	**37,155**	38,793
Payables and accruals for addition of property, plant and equipment	**2,373**	1,973
Other payables and accruals	**28,709**	23,326
Receipts in advance	**2,128**	3,155
	105,553	108,141

All of the other trade and other payables are expected to be settled within one year.

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

	As at 31 March	
	2018	2017
	HK$'000	HK$'000
Within 1 month	**18,784**	21,462
1 to 6 months	**16,404**	19,394
Over 6 months	**–**	38
	35,188	40,894

21 Borrowings

An analysis of the carrying amount of borrowings is as follows:

	As at 31 March	
	2018	2017
	HK$'000	HK$'000
Current liabilities:		
Current portion of bank loans (note 21(A))	**438,752**	420,228
Non-current portion of bank loans with repayable on demand clause (note 21(A))	**465,120**	517,258
Bank loans	**903,872**	937,486
Obligations under finance leases (note 21(B))	**184**	149
Non-current portion of convertible notes with specific redemption clause (notes 21(C))	**447,097**	–
	1,351,153	937,635
Non-current liability:		
Obligations under finance leases (note 21(B))	**660**	373
	1,351,813	938,008

21 Borrowings (Continued)

(A) BANK LOANS

(i) Bank loans were analysed as follows:

	As at 31 March	
	2018	2017
	HK$'000	HK$'000
Bank loans		
– secured	**896,316**	917,153
– unsecured	**7,556**	20,333
	903,872	937,486

As at 31 March 2018 and 2017, the secured bank facilities were secured by the land and buildings and other property, plant and equipment of the Group, trade receivables and corporate guarantees provided by the Company and certain subsidiaries of the Group, while the unsecured facilities were guaranteed by the Company, certain subsidiaries of the Group and guarantees from the Hong Kong Mortgage Corporation Limited.

These facilities amounted to HK$1,260,344,000 as of 31 March 2018 (2017: HK$1,148,598,000). These facilities were utilised to the extent of HK$916,682,000 (2017: HK$950,683,000).

The carrying value of assets pledged against bank loans as at the end of the Reporting Period is analysed as follows:

	As at 31 March	
	2018	2017
	HK$'000	HK$'000
Property, plant and equipment	**276,714**	285,584
Leasehold land	**45,315**	46,416
Investment properties	**62,000**	–
Trade receivables	**80,000**	77,339
	464,029	409,339

21 Borrowings (Continued)

(A) BANK LOANS (Continued)

(ii) As at 31 March 2018 and 2017, all the bank loans were classified as repayable within 1 year or on demand.

All the Group's banking facilities are subject to the fulfillment of covenants based on the financial statements of the Group and certain of its subsidiaries, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. As at 31 March 2018, none of the covenants relating to drawn down facilities had been breached (2017: Nil). Further details of the Group's management of liquidity risk are set out in note 29(B).

Notwithstanding the specified repayment schedules as stated in the facilities letters ("specific repayment terms") which allow the loans to be repaid over a period of more than one year, all banking facilities granted to the Group include a clause that gives the banks the unconditional rights to call the bank loans at any time ("repayment on demand clause"). These bank loans as at 31 March 2018 and 2017 were classified as current liabilities in the consolidated statement of financial position.

However, management expects that the bank loans are to be repaid as follows based on the specific repayment terms:

	As at 31 March	
	2018 HK$'000	2017 HK$'000
Bank loans due for repayment:		
Within one year	**438,752**	420,228
After 1 year but within 2 years	**87,250**	222,003
After 2 years but within 5 years	**295,244**	171,530
After 5 years	**82,626**	123,725
	465,120	517,258
	903,872	937,486

Note: The amounts due are based on the specific repayment terms set out in the facilities letters and ignore the effect of any repayment on demand clause.

(B) OBLIGATIONS UNDER FINANCE LEASES

The Group had obligations under finance leases repayable as follows:

	As at 31 March			
	2018		2017	
	Present value of the minimum lease payments HK$'000	**Total minimum lease payments HK$'000**	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	**184**	**231**	149	187
After 1 year but within 2 years	**184**	**231**	149	187
After 2 years but within 5 years	**476**	**596**	224	279
	660	**827**	373	466
	844	**1,058**	522	653
Less: Total future interest expense		**(214)**		(131)
Present value of lease obligations		**844**		522

21 Borrowings (Continued)

(C) CONVERTIBLE NOTES

	As at 31 March 2018 HK$'000
Proceeds from issue of convertible notes (200,000,000 notes at initial conversion price at HK$2.50)	500,000
Transaction costs	(9,648)
Net proceeds	490,352
Amount classified as equity (net of transaction costs of HK$1,032,000)	(52,470)
Accreted interest	9,215
	447,097

The 3-year convertible notes of HK$500,000,000 were issued on 3 October 2017 and has a maturity date of 5 October 2020. Assuming full conversion of the convertible notes based on the initial conversion price of HK$2.50 per share, the convertible notes will be convertible into 200,000,000 ordinary shares. Interest is payable at the rate of 3.5% per annum on the principal amount of the convertible notes outstanding. The convertible notes are unsecured.

The notesholders shall have the right to convert on any business day on or prior to the close of business on the maturity date, at any time and from time to time at the conversion price. Upon occurrence of any of the events of default of the convertible notes, the notesholders are entitled to require the convertible notes to be redeemed at its principal amount outstanding together with accrued and unpaid interest in Hong Kong dollars.

At any time or from time to time between the day falling on the second anniversary of the issue of the notes by the Company and the maturity date, and if the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited equals or exceeds HK$3.00 for the 5 consecutive trading days immediately preceding the date of the Company's notices of redemption, the Company may issue a notice of redemption to redeem, without any penalty, at its principal amount outstanding together with accrued and unpaid interest, in Hong Kong dollars.

Unless previously converted, repaid or cancelled in accordance with the terms provided in the note instrument, the notes will be redeemed by the Company at its principal amount outstanding together with accrued and unpaid interest, in Hong Kong dollars.

As at 31 March 2018, the convertible notes were classified as repayable within 1 year or on demand (2017: nil).

Notwithstanding the specified repayment schedules as stated in the subscription agreements ("specific redemption terms") which allow the notesholders to request the redeem the convertible notes over a period of more than 1 year, the convertibles notes are redeemed upon the occurrence of the events of default. As at 31 March 2018, none of the events of default occurred. These convertible notes as at 31 March 2018 (2017: HK$nil) were classified as current liabilities in the consolidated statement of financial position.

However, management expects that the convertible notes of HK$447,097,000 are to be redeemed at maturity or converted into ordinary shares after 2 years but within 5 years based on the specific redemption term (ignoring the effect of any redemption upon occurrence of events of default).

22 Deferred Tax

(A) DEFERRED TAX LIABILITIES/(ASSETS) RECOGNISED

The components of deferred tax liabilities/(assets) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Property, plant and equipment HK$'000	Intangible assets HK$'000	Unused tax losses HK$'000	Total HK$'000
At 1 April 2016	18,938	38,909	(10,768)	47,079
Acquisitions of a subsidiary under asset acquisition	1,676	–	–	1,676
Acquisitions of subsidiaries under business combinations	14,198	63,705	–	77,903
Charged/(credited) to profit or loss	33,328	(56)	(23,531)	9,741
Exchange difference	65	–	–	65
At 31 March 2017	68,205	102,558	(34,299)	136,464
At 1 April 2017	**68,205**	**102,558**	**(34,299)**	**136,464**
Charged/(credited) to profit or loss	**14,078**	**(847)**	**(12,549)**	**682**
Exchange difference	**(180)**	**–**	**–**	**(180)**
At 31 March 2018	**82,103**	**101,711**	**(46,848)**	**136,966**

Reconciliation to the consolidated statement of financial position

	As at 31 March	
	2018 HK$'000	2017 HK$'000
Deferred tax assets recognised in the consolidated statement of financial position	**(4,191)**	(2,423)
Deferred tax liabilities recognised in the consolidated statement of financial position	**141,157**	138,887
	136,966	136,464

The directors are of the view that future taxable profits will probably be available to utilise the deferred tax assets.

(B) DEFERRED TAX ASSETS NOT RECOGNISED

As at 31 March 2018, in accordance with the accounting policy set out in note 1(X), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$24,473,000 (2017: HK$21,011,000), respectively as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Tax losses as at 31 March 2017 and 2018 have no expiry dates under current tax legislation.

23 Share Capital

	Number of shares '000	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.01 each at 31 March 2017 and 2018	5,000,000	50,000
Issued:		
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	1,815,625	18,156
At 1 April 2017 and 31 March 2018	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.

24 Company-level Statement of Financial Position

	Note	As at 31 March 2018 HK$'000	2017 HK$'000
Non-current asset			
Interests in subsidiaries		**1,405,197**	1,163,261
Current assets			
Prepayment		**103**	–
Cash and cash equivalents		**196,774**	114,837
		196,877	114,837
Current liabilities			
Other payables		**4,330**	15
Amounts due to subsidiaries		**140,848**	337,999
Convertible notes	21(C)	**447,097**	–
		592,275	338,014
Net current liabilities		**395,398**	223,177
NET ASSETS		**1,009,799**	940,084
CAPITAL AND RESERVES			
Share capital		**18,156**	18,156
Reserves		**991,643**	921,928
TOTAL EQUITY		**1,009,799**	940,084

Details of the changes in the Company's equity are set out below:

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 April 2016	13,125	6,445	203,943	–	223,513
Profit for the year	–	–	–	15,452	15,452
Dividends declared in respect the current year (note 9)	–	–	–	(14,525)	(14,525)
Issue of ordinary shares under initial public offering and exercise of the over-allotment option (note 23)	5,031	710,613	–	–	715,644
At 31 March 2017 and 1 April 2017	18,156	717,058	203,943	927	940,084
Profit for the year	–	–	–	49,271	49,271
Dividends approved in respect of the previous year (note 9)	–	–	–	(25,419)	(25,419)
Dividends declared in respect the current year (note 9)	–	–	–	(16,341)	(16,341)
Equity-settled share-based transactions (note 28)	–	–	9,734	–	9,734
Issue of convertible notes (note 21(C))	–	–	52,470	–	52,470
At 31 March 2018	18,156	717,058	266,147	8,438	1,009,799

25 Reserves

The nature and purpose of reserves are set out below:

(A) SHARE PREMIUM

Share premium account represented the difference between the consideration and the par value of the issued shares of the Company.

(B) CAPITAL RESERVE

The capital reserve comprises the following:

– shareholders' loans capitalised;

– the difference between the considerations paid by the Group and the share of net assets value of the subsidiaries acquired from non-controlling interests;

– the difference between the par value of the Company's shares issued and the equity of JPG (BVI) acquired during the Reorganisation. Pursuant to the Reorganisation, the Company issued 1,308,646,000 ordinary shares of HK$0.01 each to the then shareholders of JPG (BVI) in consideration of acquiring their equity interests held in JPG (BVI). The difference between the then shareholders' equity JPG (BVI) over the par value of the shares issued by the Company was transferred to the capital reserve in the financial statements as at the date of Reorganisation;

– the portion of the grant date fair value of unexercised share options granted to certain employees, including certain executive directors of the Company and certain directors of subsidiaries of the Company, that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(W)(ii); and

– the amount allocated to the unexercised equity component of the convertible notes issued by the Group recognised in accordance with the accounting policy adopted for convertible notes in note 1(S).

(C) EXCHANGE RESERVE

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(AA).

(D) CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends payable to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group is not subject to externally imposed capital requirements.

26 Business Combinations

(A) ACQUISITION OF HONG NING HONG LIMITED

On 10 April 2017, the Group acquired the 70% equity interest of Hong Ning Hong Limited and its subsidiary ("the HNH Group") which are engaged in retail and wholesale of proprietary medicines via its retail outlet at a consideration of HK$56,000,000 to accelerate the growth momentum for the Group's proprietary medicine business. These entities contributed revenue of HK$177,651,000 and profit of HK$2,530,000 to the Group for the period from 10 April 2017 to 31 March 2018. If the acquisition had occurred on 1 April 2017, the Group's revenue and profit for the year ended 31 March 2018 would have been increased by HK$4,466,000 and HK$388,000 respectively.

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

	Values recognised on acquisition 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 mainly attributable to the first-hand market intelligence for capitalising on market opportunities and new product development for the Group's proprietary medicines segment.

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

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

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 31 March 2018, the fair value of contingent consideration receivable had increased to HK$4,647,000.

The Inland Revenue Department of Hong Kong (the "IRD") has initiated tax audit on Hong Ning Hong Limited's tax affairs for the years of assessment from 2004/05 to 2011/12 which have not been finalised. Pursuant to the agreement with the seller, the seller will indemnify the company for any additional tax, interest, penalty or other charge payable for profits earned prior to the acquisition.

26 Business Combinations (Continued)

(A) ACQUISITION OF HONG NING HONG LIMITED (Continued)

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 of loss and other comprehensive income for the year ended 31 March 2018.

(B) ACQUISITION OF CAWAH HOLDINGS LIMITED AND THE OPERATING ASSETS

On 31 October 2016, the Group acquired the entire equity interest of Cawah Holdings Limited, which are engaged in manufacturing and sale of pharmaceutical products, and certain operating assets at a consideration of HK$100,000,000 in order to increase the market share in generic during business and widen product portfolio. These entities contributed revenue of HK$25,256,000 and profit of HK$4,146,000 to the Group for the period from 31 October 2016 to 31 March 2017. If the acquisition had occurred on 1 April 2016, the Group's revenue and profit for the year ended 31 March 2017 would have been increased by HK$33,369,000 and HK$4,251,000 respectively.

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

	Recognised values on acquisition HK$'000
Property, plant and equipment	5,877
Intangible assets	49,689
Inventories	4,250
Trade and other receivables	2,790
Cash and cash equivalents	2,974
Trade and other payables	(7,534)
Obligation under finance lease	(125)
Current tax payable	(3,088)
Deferred tax liabilities	(8,835)
Net identifiable assets acquired	45,998
Less: Consideration	(100,000)
Goodwill	54,002
Analysis of the net cash outflow of cash and cash equivalents in respect of the acquisition	
Cash consideration paid	100,000
Less: Cash and cash equivalents acquired	(2,974)
	97,026

The goodwill is attributable mainly to the assembled workforce and the synergies expected to be achieved from integrating Cawah Holdings Limited into the Group's Generic Drugs segment.

Acquisition-related costs

The Group incurred acquisition-related costs of HK$1,219,000 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 of loss and other comprehensive income for the year ended 31 March 2017.

26 Business Combinations (Continued)

(C) ACQUISITION OF VICTOR LUCK LIMITED AND HAPPY ECHO LIMITED

On 16 January 2017, the Group acquired the entire equity interest of two companies, Victor Luck Limited and Happy Echo Limited. Victor Luck Limited, Happy Echo Limited and their subsidiaries ("Victor Luck Group") are engaged in manufacturing, marketing and sales of generic drugs and proprietary medicines under the brand name of "Ho Chai Kung" at a consideration of HK$568,000,000 in order to widen the existing proprietary medicines portfolio, deepen its product penetration and enhance its market position. Victor Luck Group contributed revenue of HK$27,058,000 and profit of HK$8,011,000 to the Group for the period from 16 January 2017 to 31 March 2017. If the acquisition had occurred on 1 April 2016, the Group's revenue and profit for the year ended 31 March 2017 would have been increased by HK$64,014,000 and HK$43,414,000 respectively.

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

	Recognised values on acquisition HK$'000
Property, plant and equipment	93,696
Intangible assets	326,820
Inventories	10,548
Trade and other receivables	6,656
Cash and cash equivalents	22,961
Trade and other payables	(4,612)
Bank loans	(7,019)
Current tax payable	(6,184)
Deferred tax liabilities	(67,487)
Net identifiable assets acquired	375,379
Less: Consideration	(568,000)
Goodwill	192,621
Analysis of the net cash outflow of cash and cash equivalents in respect of the acquisition	
Cash consideration paid	568,000
Less: Cash and cash equivalents acquired	(22,961)
	545,039

The goodwill is attributable mainly to the assembled workforce and the synergies expected to be achieved from integrating the Victor Luck Group into the Group's Proprietary Medicines segment.

Acquisition-related costs

The Group incurred acquisition-related costs of HK$4,964,000 relating to the external legal and professional fees and due diligence costs. These costs have been included in "administrative and other operating expenses" in the consolidated statement of profit of loss and other comprehensive income for the year ended 31 March 2017.

26 Business Combinations (Continued)

(D) ACQUISITION OF BUSINESS FROM LING CHI MEDICINE COMPANY (HONG KONG) LIMITED

On 31 March 2017, the Group acquired substantially all of the assets in connection with the business carried out by Ling Chi Medicine Company (Hong Kong) Limited which are engaged in manufacturing of proprietary medicines under the brands of "Saplingtan", "Shiling Oil" and "Col-gan Tablet" at a consideration of HK$9,073,000 in order to widen the existing proprietary medicines portfolio. If the acquisition had occurred on 1 April 2016, the Group's revenue and profit for the year ended 31 March 2017 would have been increased by HK$5,521,000 and decreased by HK$3,924,000 respectively.

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

	Recognised values on acquisition HK$'000
Intangible assets	9,581
Non-current assets	288
Inventories	785
Deferred tax liabilities	(1,581)
Net identifiable assets acquired	9,073
Less: Consideration	(9,073)
Goodwill	–
Analysis of the net cash outflow of cash and cash equivalents in respect of the acquisition	
Cash consideration paid	9,073

Acquisition-related costs

The Group incurred acquisition-related costs of HK$602,000 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 of loss and other comprehensive income for the year ended 31 March 2017.

(E) MEASUREMENT OF FAIR VALUE

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	**Valuation technique**
Property, plant and equipment	Market comparison technique and cost technique: The valuation model considers quoted market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.
Intangible assets	Relief from royalty method and excess earnings method: The relief from royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the technical knowhow or trademarks being owned. The excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.
Contingent consideration receivable	Discounted cash flows: The valuation model considers the present value of the expected future payments, discounted using a risk-adjusted discount rate. The expected payment is determined by considering the possible scenarios of Net Profits, the amount to be paid under each scenario and the probability of each scenario.

27 Acquisitions of Non-Controlling Interests

In October and November 2016, the Group acquired an additional 10.69% interests in Europharm Laboratoires Company Limited ("Europharm") at a cash consideration of HK$41,369,000, increasing its ownership in Europharm from 89.31% to 100%. The Group recognised:

– a decrease in non-controlling interests of HK$21,486,000; and

– a decrease in capital reserve of HK$19,883,000.

The carrying amount of Europharm's net assets in the Group's consolidated financial statements on the dates of the acquisition was HK$199,892,000 and HK$200,085,000 respectively.

The following summarises the changes in the Group's ownership interest in Europharm:

	HK$'000
Group's ownership interest at 1 April 2016	168,656
Effect of increase in Group's ownership interest	21,486
Share of comprehensive income	20,901
Dividends declared	(4,340)
Group's ownership interest at 31 March 2017	206,703

In March 2017, the Group acquired an additional 8.8% and 9% interest in Li Chung Shing Tong (Holdings) Limited ("LCST (Holdings)") and Quinwood Limited, at an aggregate consideration of HK$21,800,000, increasing its ownership in LCST (Holdings) and its subsidiary and Quinwood Limited from 55.2% to 64% and from 62% to 71% respectively. The Group recognised:

– a decrease in non-controlling interests of HK$5,602,000; and

– a decrease in capital reserve of HK$16,198,000.

The carrying amount of the net assets of LCST (Holdings) and its subsidiary and Quinwood Limited in the Group's consolidated financial statements on the date of the acquisition were HK$59,050,000 and HK$4,503,000 respectively.

The following summarises the changes in the Group's ownership interest in LCST (Holdings) and its subsidiary:

	HK$'000
Group's ownership interest at 1 April 2016	26,816
Effect of increase in Group's ownership interest	5,197
Share of comprehensive income	5,459
Dividends declared	(828)
Group's ownership interest at 31 March 2017	36,644

The following summarises the changes in the Group's ownership interest in Quinwood Limited:

	HK$'000
Group's ownership interest at 1 April 2016	2,626
Effect of increase in Group's ownership interest	405
Share of comprehensive income	616
Group's ownership interest at 31 March 2017	3,647

28 Equity-settled Share-based Transactions

(A) SHARE INCENTIVE SCHEME

On 19 April 2017 and 22 January 2018 (2017: 19 October 2016 and 20 January 2017), pursuant to the Share Incentive Scheme adopted by the Company on 30 August 2016, certain employees, including certain executive directors of the Company and certain directors of subsidiaries of the Company, were granted share awards entitling them to acquire an aggregate of 6,000,000 and 11,465,000 ordinary shares of the Company respectively (2017: 12,500,000 and 2,066,000 ordinary shares of the Company respectively), from The Jacobson Pharma (PTC) Limited, with vesting dates on 21 April 2017 and 23 January 2018 (2017: 21 October 2016 and 23 January 2017). There were a total of 10,240,000 share awards granted on 22 January 2018 and vested on 23 January 2018 to certain executive directors, which are subject to a lock up period of 2 years from the date of offer. All the share awards granted of 17,465,000 ordinary shares (2017: 14,566,000 ordinary shares) have been vested during the years ended 31 March 2018 and 2017 and there was no outstanding share awards granted as at 31 March 2018 and 2017.

The acquisition prices of the share awards were HK$1.6 per ordinary share and HK$1.9 per ordinary share (2017: HK$1.5 per ordinary share and HK$1.8 per ordinary share) for the share awards granted on 19 April 2017 and 22 January 2018 (2017: 19 October 2016 and 20 January 2017 respectively). The market closing price at these dates were HK$1.6 per ordinary share and HK$1.9 per ordinary share respectively (2017: HK$1.5 per ordinary share and HK$1.8 per ordinary share respectively). The fair values of the share awards at grant dates were effectively zero.

(B) SHARE OPTION SCHEME

The Company has a Share Option Scheme which was adopted on 30 August 2016 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any companies in the Group, to take up options at HK$1 consideration to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(i) The terms and conditions of the grants are as follows:

Options granted to directors	No of instruments	The options are exercisable in the following tranches:
	'000	
– on 30 June 2017	6,000	from 1 October 2017 up to 30 September 2018
– on 30 June 2017	6,000	from 1 October 2018 up to 30 September 2019
– on 30 June 2017	6,000	from 1 October 2019 up to 30 September 2020
	18,000	
Options granted to all other employees		
– on 30 June 2017	5,910	from 1 October 2017 up to 30 September 2018
– on 30 June 2017	5,910	from 1 October 2018 up to 30 September 2019
– on 30 June 2017	6,180	from 1 October 2019 up to 30 September 2020
– on 18 October 2017	1,000	from 1 April 2018 up to 17 October 2020
	19,000	
Total share options granted	37,000	

28 Equity-settled Share-based Transactions (Continued)

(B) SHARE OPTION SCHEME (Continued)

(ii) The number and weighted average exercise prices of share options are as follows:

	As at 31 March 2018	
	Weighted average exercise price HK$	**Number of options '000**
Outstanding at the beginning of the year	–	–
Granted during the year	**2.06**	**37,000**
Lapsed during the year	**2.06**	**(400)**
Outstanding at the end of the year	**2.06**	**36,600**
Exercisable at the end of the year	**2.06**	**11,910**

No shares options were exercised during the year (2017: nil).

The options outstanding at 31 March 2018 had an exercise price of HK$2.06 (2017: nil) and a weighted average remaining contractual life of 1 year (2017: nil).

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value of share options and assumptions

Fair value at measurement date		
Grant date	30 June 2017	18 October 2017
Share price	2.06	2.07
Exercise price	2.06	2.13
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	33.2%-41.2%	41.1%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	1.3-3.3 years	3 years
Expected dividends	1.07%	1.06%
Risk-free interest rate (based on Hong Kong Government Bond Benchmark Yield Curve)	0.61-0.98%	1.23%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

29 Financial Risk Management and Fair Values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(A) CREDIT RISK

The Group's credit risk is primarily attributable to cash and cash equivalents, trade and other receivables and derivative financial instruments. Cash and cash equivalents are normally placed at financial institutions that have sound credit ratings and the Group considers the credit risk to be insignificant. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 March 2018, 5.5% (2017: 8.1%) of the total trade and other receivables was due from the Group's largest debtor and 16.7% (2017: 18.9%) was due from the five largest debtors respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 17.

(B) LIQUIDITY RISK

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Given that bank loans subject to repayment on demand clause and convertible notes subject to redemption upon occurrence of events of default are classified as current liabilities as set out in note 20, the contractual undiscounted cash outflows of all the financial liabilities as at 31 March 2018 and 2017 are due within 1 year or on demand and equal their carrying value at the end of the Reporting Period, except for the obligations under finance leases which are disclosed in note 21.

The following tables show the remaining contractual maturities at the end of the Reporting Period of the Group's bank loans and convertible notes, which are based on contractual undiscounted cash outflows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the Reporting Period).

29 Financial Risk Management and Fair Values (Continued)

(B) LIQUIDITY RISK (Continued)

As the directors do not expect the banks or the notesholders would exercise the rights to demand repayment or redemption, the bank loans subject to repayment on demand clause and convertible notes subject to redemption clause are expected to be repayable based on the specific repayment terms. Hence, for these bank loans and convertible note, the following tables show the contractual undiscounted cash outflows according to the specific repayment terms and, separately, the impact to the timing of the cash outflows if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

	As at 31 March 2017						
	Contractual undiscounted cash outflow						
	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Carrying amount HK$'000
Bank loans subject to repayment on demand clauses: scheduled repayments	–	440,951	233,144	186,372	128,263	988,730	937,486
Adjustments to disclose cash flows on bank loans based on lender's right to demand repayment	937,486	(440,951)	(233,144)	(186,372)	(128,263)	(51,244)	–
	937,486	–	–	–	–	937,486	937,486

	As at 31 March 2018						
	Contractual undiscounted cash outflow						
	On demand HK$'000	**Within 1 year HK$'000**	**More than 1 year but less than 2 years HK$'000**	**More than 2 years but less than 5 years HK$'000**	**More than 5 years HK$'000**	**Total HK$'000**	**Carrying amount HK$'000**
Bank loans subject to repayment on demand clauses: scheduled repayments	**–**	**459,235**	**99,776**	**318,093**	**87,662**	**964,766**	**903,872**
Convertible note subject to redemption upon occurrence of events of default: scheduled repayments	**–**	**17,500**	**17,500**	**508,774**	**–**	**543,774**	**447,097**
Adjustments to disclose cash flows on bank loans based on lender's right to demand repayment	**903,872**	**(459,235)**	**(99,776)**	**(318,093)**	**(87,662)**	**(60,894)**	**–**
Adjustments to disclose cash flows on convertible notes based on notesholders' right to demand redemption	**504,315**	**(17,500)**	**(17,500)**	**(508,774)**	**–**	**(39,459)**	**–**
	1,408,187	**–**	**–**	**–**	**–**	**1,408,187**	**1,350,969**

29 Financial Risk Management and Fair Values (Continued)

(C) INTEREST RATE RISK

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the Reporting Period:

	As at 31 March			
	2018 Effective interest rate	**Amount HK$'000**	2017 Effective interest rate	Amount HK$'000
Fixed rate borrowings:				
Obligations under finance leases	**5.16%**	**844**	5.09%	522
Convertible notes	**8.19%**	**447,097**	–	–
		447,941		522
Variable rate borrowings:				
Bank loans	**1.88% – 5%**	**903,872**	1.94% – 4.84%	937,486
Total interest-bearing borrowings		**1,351,813**		938,008
Fixed rate borrowings as a percentage of total net borrowings		**33.1%**		**0%**

(ii) Sensitivity analysis

As at 31 March 2018, it is estimated that a general increase/decrease of 10 basis points in interest rates with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately HK$755,000 (2017: HK$916,000).

The sensitivity analysis above indicates the annualised impact on the Group's interest expense that would arise assuming that the change in interest rates had occurred at the end of the Reporting Period and had been applied to floating rate instruments which expose the Group to cash flow interest rate risk at that date. The analysis does not take into account exposure to fair value interest rate risk arising from fixed rate instruments as the Group does not hold any fixed rate instruments which are measured at fair value in the Financial statements. The analysis is performed on the same basis for 2017.

29 Financial Risk Management and Fair Values (Continued)

(D) CURRENCY RISK

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros, United States dollars and Renminbi. The Group manages this risk as follows:

In respect of other trade receivables and payables denominated in foreign currencies, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

All the Group's borrowings are denominated in the functional currency of the entity taking out the loan or, in the case of group entities whose functional currency is Hong Kong dollars, in either Hong Kong dollars or United States dollars. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the Reporting Period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency are excluded.

	As at 31 March					
	2018			2017		
	United States dollars HK$'000	**Euros HK$'000**	**Great British Pounds HK$'000**	United States dollars HK$'000	Euros HK$'000	Great British Pounds HK$'000
Cash and cash equivalents	**220,646**	**1,029**	**–**	–	–	–
Trade and other receivables	**4,661**	**601**	**–**	2,450	5,423	–
Trade and other payables	**(1,618)**	**(3,770)**	**–**	(8,772)	(1,360)	(592)
Net exposure arising from recognised assets and liabilities	**223,689**	**(2,140)**	**–**	(6,322)	4,063	(592)

29 Financial Risk Management and Fair Values (Continued)

(D) CURRENCY RISK (Continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the Reporting Period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	As at 31 March			
	2018		2017	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits HK$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits HK$'000
Euros	**16%**	**(342)**	6%	244
	(16)%	**342**	(6)%	(244)
Great British Pounds	**14%**	**–**	13%	(77)
	(14)%	**–**	(13)%	77

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the Reporting Period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the Reporting Period. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis is performed on the same basis for 2017.

(E) FAIR VALUE MEASUREMENT

FAIR VALUE HIERARCHY

At 31 March 2018, the only financial instrument carried at fair value was contingent consideration receivable of HK$4,647,000 (see note 26(A)) (2017: HK$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 carrying amounts of the Group's financial instruments carried at cost of amortised cost are not materially different from their fair values as at 31 March 2018 and 2017.

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 31 March 2018, it is estimated that with all other variables held consent, an increase/decrease in the Net Profit by 10% would have decreased/increased the Group's profit by HK$55,000 (2017: HK$nil).

During the year, 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.

30 Capital Commitments

Capital commitments outstanding at the end of each Reporting Period not provided for in the financial statements were as follows:

	As at 31 March	
	2018 **HK$'000**	2017 HK$'000
Authorised and contracted for		
– Acquisition of subsidiaries	**–**	50,400
– Purchase of non-current assets	**7,429**	10,166
– Investment in an associate	**32,779**	–
	40,208	60,566

31 Operating Lease Commitments

The total future minimum lease payments of the Group under non-cancellable operating leases in respect of land and buildings are payable as follows:

	As at 31 March	
	2018 **HK$'000**	2017 HK$'000
Within 1 year	**37,796**	39,469
After 1 year but within 5 years	**31,047**	37,845
After 5 years	**–**	588
	68,843	77,902

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of 1 to 3 years, with an option to renew the lease upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

32 Material Related Party Transactions

During the year, transactions with the following parties are considered to be related party transactions:

Name of related party	**Relationship with the Group**
Mr. Sum Kwong Yip, Derek	Chairman, Chief Executive Officer, Executive Director and one of the Controlling Parties*
Mr. Lau Wing Hung	One of the Controlling Parties

In additions to the transactions and balances disclosed elsewhere in the financial statements, particulars of significant transactions between the Group and the above related parties during the year are as follows:

(A) KEY MANAGEMENT PERSONNEL EMOLUMENTS

All members of key management personnel are directors of the Company and their compensation is disclosed in note 6.

Total remuneration is included in "staff costs" (see note 4(B)).

* The Controlling Parties include Mr. Sum Kwong Yip, Derek and Mr. Lau Wing Hung.

33 Immediate and Ultimate Controlling Party

At 31 March 2018, the directors consider the immediate parent and ultimate controlling party of the Group to be Kingshill Development Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

34 Non-adjusting Events After the Reporting Period

On 11 June 2018, the Group completed the acquisition of 100% of equity interests in Big Honour Limited at a cash consideration of HK$128,000,000 to acquire certain units and car parks in a commercial building in Hong Kong.

35 Accounting Judgments and Estimates

KEY SOURCES OF ESTIMATION UNCERTAINTY

Notes 10, 28 and 29 contain information about the assumptions and their risk factors relating to valuation of investment properties, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(A) VALUATION OF NET ASSETS ACQUIRED AT BUSINESS COMBINATIONS

The net assets acquired at business combinations are valued by external professional qualified valuers at the date of acquisitions. Such valuations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. Any increase or decrease in the valuations would affect the fair value of net identifiable assets acquired.

(B) IMPAIRMENT OF INTANGIBLE ASSETS

In considering the impairment losses that may be required for the Group's intangible assets (including goodwill), the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate the fair value less costs of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which requires significant judgment relating to items such as the level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling prices and amount of operating costs.

Any increase or decrease in the above impairment losses would affect the net profit in future years.

36 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 March 2018

Up to the date of the financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2018 and which have not been adopted in the financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKAS 40, *Investment property: Transfers of investment properties*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The Group does not plan to early adopt any of the above new standards or amendments. The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. The impact of the new standards or amendments is summarised as follows. The actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the group's interim financial report for the six months ending 30 September 2018.

36 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 March 2018 (Continued)

HKFRS 9, FINANCIAL INSTRUMENTS

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 April 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI).

For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9. The investments in equity securities stated at cost less impairment losses will be measured at FVTPL. This change will increase volatility in profit or loss.

Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected loss" model. Under the expected loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. The application of the expected loss model will result in earlier recognition of credit losses. The Group anticipates that the application of expected loss model will have not significant impact on the Group's results of operation and financial position.

HKFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 1(Z). Currently, revenue is recognised in profit or loss when goods are delivered and the related risks and rewards of ownership are passed to customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue.

Sales with a right of return

Currently when the customers are allowed to return the Group's products, the Group estimates the level of expected returns and makes an adjustment against revenue and cost of sales. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

36 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 March 2018 (Continued)

HKFRS 16, LEASES

As disclosed in note 1(O), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into leases as lessee.

Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 31, at 31 March 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$31,047,000 for properties and other assets, which is payable between 1 and 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted.

The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

Five-year Financial Summary

(Expressed in Hong Kong dollars)

A summary of the results and of the assets and liabilities of the Group for the last five financial years is as follows:

	Year ended 31 March				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**1,548,684**	1,255,957	1,083,856	947,591	926,181
Cost of sales	**(931,022)**	(699,069)	(596,101)	(562,883)	(501,339)
Gross profit	**617,662**	556,888	487,755	384,708	424,842
Other income/(loss)	**19,506**	11,740	(465)	6,005	65,172
Selling and distribution expenses	**(167,075)**	(145,350)	(133,807)	(105,061)	(97,974)
Administrative and other operating expenses	**(172,865)**	(188,036)	(167,963)	(146,810)	(169,123)
Profit from operations	**297,228**	235,242	185,520	138,842	222,917
Finance costs	**(46,005)**	(13,996)	(2,523)	(2,707)	(5,969)
Profit before taxation	**251,223**	221,246	182,997	136,135	216,948
Income tax	**(46,323)**	(39,986)	(30,335)	(22,157)	(32,247)
Profit for the year	**204,900**	181,260	152,662	113,978	184,701
Profit attributable to:					
Shareholders of the Company	**202,270**	179,328	145,610	101,904	172,357
Non-controlling interests	**2,630**	1,932	7,052	12,074	12,344
Total profit for the year	**204,900**	181,260	152,662	113,978	184,701

	As at 31 March				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total non-current assets	**2,369,473**	2,136,155	1,322,061	1,311,176	1,011,869
Total current assets	**1,241,682**	833,912	499,989	394,035	444,940
Total current liabilities	**1,461,363**	1,058,489	816,835	650,238	488,914
Total non-current liabilities	**141,817**	139,260	49,070	48,338	50,908
Net current liabilities	**219,681**	224,577	316,846	256,203	43,974
Total assets less current liabilities	**2,149,792**	1,911,578	1,005,215	1,054,973	967,895
Net assets	**2,007,975**	1,772,318	956,145	1,006,635	916,987

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%
"AGM"	the forthcoming 2018 annual general meeting of the Company
"Articles of Association"	the articles of association of the Company currently in force
"ASEAN"	The Association of Southeast Asia Nations
"associate(s), chief executive(s), connected person(s), substantial shareholder(s)"	each has the meaning as described in the Listing Rules
"Board"	Board of Directors
"China" or "the PRC"	the People's Republic of China excluding, for the purpose of this Annual 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
"Director(s)"	the director(s) of the Company
"FY2017"	the year ended 31 March 2017
"FY2018" or "Reporting Period"	the year ended 31 March 2018
"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
"Jacobson", "Group", "our Group", "the Group", "we", "us", or "our"	the Company and its subsidiaries and, in respect of the period before we became the holding company of our present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited
"Hong Ning Hong Group"	Hong Ning Hong Limited and one of its wholly-owned Hong Kong subsidiary

"HKIB"	Hong Kong Institute of Biotechnology
"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
"Longjin"	Longjin Investments Limited, a limited liability company incorporated under the laws of BVI on 30 August 1994 and one of our Controlling Shareholders
"Main Board"	Main Board of the Stock Exchange
"Medipharma"	Medipharma Limited
"NAMI"	Nano & Advanced Materials Institute Limited
"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
"net debts"	bank loans and convertible notes 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
"Prospectus"	the prospectus issued by the Company dated 8 September 2016
"Private Sector"	refers to non-Public Sector
"Public Sector"	refers to public sector 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
"Risk Management Committee"	a working committee reporting to the Audit Committee of the Company on the Group's risk-related matters
"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

"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

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