Accelerating Our Strategies For Sustainable Growth

JACOBSON PHARMA CORPORATION LIMITED

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

Jacobson Pharma Corporation

Annual Report 2019

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CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Non-executive Director
Professor Lam Sing Kwong, Simon

Independent Non-executive Directors
Dr. Lam Kwing Tong, Alan
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. Pun Yue Wai

COMPANY SECRETARY
Mr. Yim Chun Leung

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 54, Hopewell Centre
183 Queen's Road East
Hong Kong

HONG KONG LEGAL ADVISOR
Deacons

AUDITOR
KPMG

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

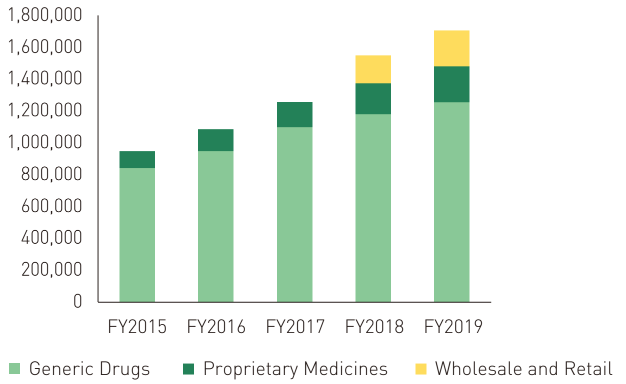
STOCK CODE
2633

COMPANY WEBSITE
www.jacobsonpharma.com

FINANCIAL HIGHLIGHTS

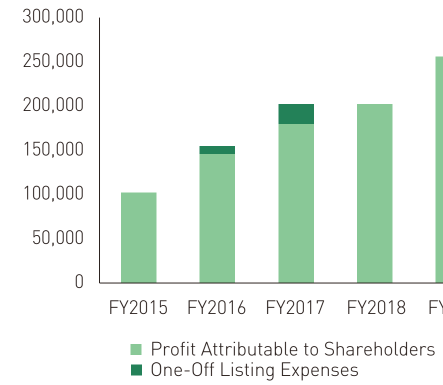
Revenue

(HK$'000)



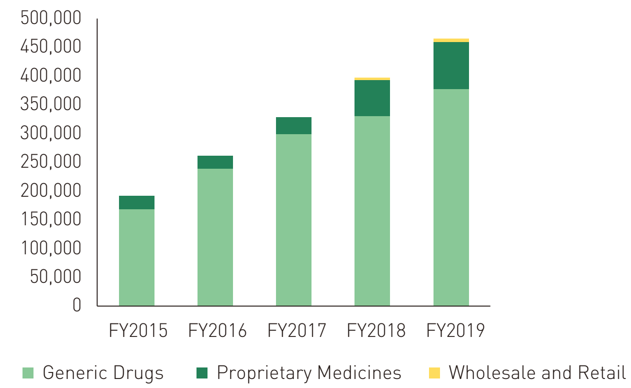
Adjusted Profit Attributable to Shareholders

(HK$'000)



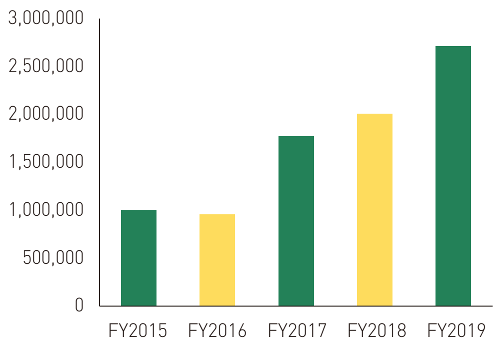
Adjusted EBITDA

(HK$'000)



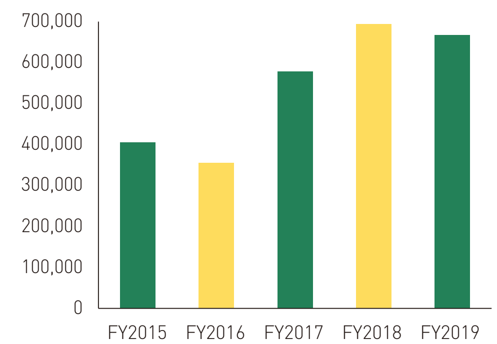
Net Assets

(HK$'000)

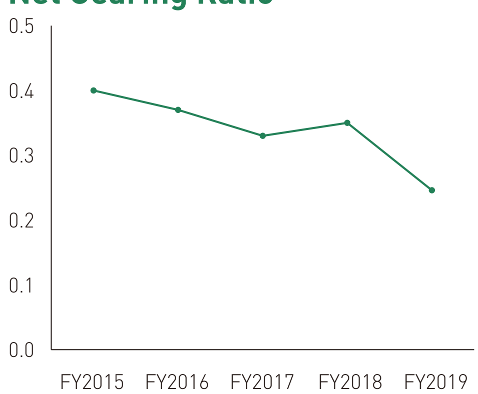


Net Debts

(HK$'000)



Net Gearing Ratio



	Year ended 31 March 2019 HK$'000	Year ended 31 March 2018 HK$'000	Change
Revenue			
– Generic Drugs	1,253,022	1,178,795	+6.3%
– Proprietary Medicines	225,103	192,238	+17.1%
– Wholesale and Retail	226,516	177,651	+27.5%
Total	1,704,641	1,548,684	+10.1%
Gross profit	689,888	617,662	+11.7%
Gross profit margin (%)	40.5%	39.9%	
Profit attributable to shareholders of the Company	250,561	202,270	+23.9%
Profit margin attributable to shareholders of the Company (%)	14.7%	13.1%	
Adjusted EBITDA (1)	464,387	397,003	+17.0%
Adjusted EBITDA margin (%) (2)	27.2%	25.6%	
Return on equity (%) (3)	11.0%	10.8%	

	As at 31 March 2019 HK$'000	As at 31 March 2018 HK$'000	Change
Total assets	4,260,594	3,611,155	+18.0%
Total liabilities	1,573,456	1,603,180	-1.9%
Total equity	2,687,138	2,007,975	+33.8%

(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 share of profits less losses of associates and 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,

"With many of the momentum-building opportunities ahead of us, we are well-positioned for 2019 and beyond..."

Dear Shareholders,

In 2018, we launched a 3-year strategic growth plan named as BIRD 2020. The plan sets out four main goals:

a. Increase our market shares in all markets where we operate

b. Expand our market presence outside of Hong Kong and aspire to become an eminent player in Asia

c. Strengthen the values of our product portfolio through a targeted selection of products that are either licensed in or developed in-house

d. Make a right balance on capital allocation between M&A and business development

It was a productive year for execution of our growth strategies and realisation of our operational excellence – one in which we made good progress and accomplished key milestones along the way. We have established a management framework to oversee the business development initiatives across the region encompassing China, Macau, Taiwan, Singapore, Malaysia and Cambodia, and will continue to build a talent pool to round out our core management structure.

As an integral part of the growth plan, we have also initiated a drive to enrich and expand our product offerings, in part through in-licensing and business representation, and in part through our own R&D programs. A total of over 100 applications have been filed with the regulatory authorities during the year covering a range of therapeutic areas such as oncology, cardiovascular, central nervous system and auto-immune disorders. The Group currently has a generic portfolio of over 100 differentiated product families marketed in various dosage forms and holds a leading position in a number of the therapeutic categories. Our strategy is to maintain a wide and balanced product mix in our portfolio so as to mitigate the potential risks arising from being overly dependent on a few major product lines.

On a separate front, we have forged an avenue for a commercial entry into the biosimilar sector through in-licensing of product at its late stage of clinical study. Our strategic partner Fosun Henlius holds a leading position in the research and development of biosimilar products. Whilst noting that their biosimilar version of Rituximab is the first biosimilar approved by CFDA in China, we are pleased to report that our in-licensed product, namely Trastuzumab, is also making good progress in the phase three clinical trial program which is scheduled to be completed by mid-2020. On business development front, we have made a debut entry into the orphan drug sector by signing up with a Swiss specialty pharma company named Dipharma. It is most encouraging to see that our team has succeeded in securing our first orphan drug tender in the Malaysia market.

Financial Stability Provides Versatility...

I am pleased with the performance of the Group this year. Total revenue reached HK$1,704.6 million, a steady growth of 10.1% over the prior year. Profit from operations was reported at HK$376.6 million, up by 26.7% on a year-on-year basis. Both the generic drugs and proprietary medicines businesses posted a steady growth in both revenue and gross profit. The consistent performance of our generic drug business in an environment where competition is intensifying demonstrates the resilience of our portfolio and the scalability and cost-efficiency of our manufacturing facilities. Case in point is that our continued investment in quality compliance and technical competence has paid dividend on our cardiovascular franchise primarily Losartan and Valsartan, both of which have gained a strong foothold in the market following a recall of our competitors' products from the market due to quality issues. Another positive note is our business development team's efforts in building a market leadership position for 0.01% and 0.05% Atropine Eye Drops, formulations of which have shown to be effective in slowing down the progression of myopia for young-aged children. We envisage that with a raised awareness on the usage benefits of these specialised formulations, there will be a quantum leap on the revenue growth of the Atropine products in coming year across various markets in Asia spanning from Hong Kong, Macau, Guangdong Province of the PRC to Singapore and Malaysia where we have the exclusive marketing right.

Riding on our consistent ability to generate positive cash flow and a healthy balance sheet, we have the resources to invest in our regional expansion plans and R&D programs, and to move ahead progressively in seizing development opportunities that support our vision.

Navigating New Paths For Delivering A Sustainable Growth Over The Long Term...

Whilst our businesses have performed consistently well over the years, we would contemplate a refinement of our strategies to ensure that we can withstand the competitive pressure and are well-positioned to deliver sustainable growth over the long term. This comprises four main strategic priorities:

A. Deliver more values from our solid foundation

Jacobson has a solid foundation from which to build a broad product portfolio, a differentiated pipeline, strong commercial capabilities, a quality-driven manufacturing set-up and an extensive network of regional partners. We will leverage these strengths and maximise the value of our product offerings by stepping up the geographic expansion plans through our regional management structure.

B. Build a portfolio that anticipates the needs in both generic drugs and consumer healthcare sectors

A new product, be it a premium generic, a medical nutrition or a consumer OTC offering that answers the evolving and unmet needs of healthcare professionals, patients and consumers will deliver sustainable growth in a competitive market. Alongside our internal R&D programs, we will build on our track record of working with partners to add differentiated products through in-licensing and co-development, and to leverage our position as a "partner of choice" in Asia and the Greater China regions.

C. Focus on quality and operational excellence

We shall continue to place emphasis on quality and compliance across our facilities and sharpen our focus on supply chain efficiency so that we can maintain a lean cost structure and an efficient scalability to give us the competitive advantages vis-a-viz our competitors.

D. Inspire and enable our people

It is ultimately our people who will deliver most of our values and achieve our ambitious growth targets. Fostering a culture where people can thrive is our priority, and such a people-enabling culture serves well to retain our best people and to attract new talents.

This is the second year that we have undertaken a performance-based reward scheme for our management staff. We strive to provide a collaborative and supportive work environment that enables our team to deliver result for the company while achieving personal fulfillment at the same time. We cherish a culture where people will work as a cohesive force to pursue our shared mission, overcome boundaries and thrive on challenges.

Stepping Confidently Into The Future...

As we continue to build momentum on the accomplishments that we achieved in 2018, we will safeguard the unique balance of our expertise, ingenuity and deliberation. 2019 is off to a good start and I am optimistic about the year ahead. We have a clear and strategically-aligned growth plan in place that will guide us forward and facilitate the delivery of sustainable growth for our business over the long term.

Jacobson remains well-positioned with a balanced product portfolio and a strong R&D pipeline along with its established core competences and robust financial profile. This enables us to be agile in seizing new growth opportunities and maximising returns for our shareholders.

I wish to thank all of our employees and fellow directors of the board for their immense contributions to our business growth. I would also like to extend my gratitude to our shareholders for their support and trust. Together, we will continue to deliver on the shared vision of Jacobson.

Sincerely,

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

Hong Kong, 25 June 2019

CORPORATE VISION AND MISSION

OUR VISION

At Jacobson, we aspire to become an eminent player in essential medicines and consumer healthcare solutions in Asia.

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 pharmaceutical company in Hong Kong vertically integrated in the research, development, production, sale and distribution of generics, specialty drugs and proprietary medicines. As a major provider of generic drugs in Hong Kong, the Group has one of the most extensive sales and distribution coverage for both the private and public market sectors in Hong Kong, with an expanding reach into strategically selected Asian markets. Carrying a broad product portfolio and taking a pre-eminent market position in a number of therapeutic categories, the Group operates a host of 9 licensed production facilities for generic drugs in Hong Kong. The Group also operates 2 GMP-accredited production facilities for proprietary Chinese medicines located in Hong Kong.

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 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.

MANAGEMENT DISCUSSION & ANALYSIS

PIC/S GMP accredited manufacturing facilities at Jean-Marie Pharmacal Company Limited of the Group

BUSINESS REVIEW

The total revenue of the Group posted a 10.1% year-on-year growth to HK$1,704.6 million, with profit attributable to shareholders leapt by a promising 23.9% to HK$250.6 million mainly buoyed by consistent sales performance along with operating leverages and financial savings derived from cost control measures. The Group has further cemented its predominant position in the generic drugs market in Hong Kong with a steady growth momentum boosted by its broad product portfolio and extensive market coverage. Carrying a host of consumer-preferred heritage brands with a track record of performance, the Group's proprietary medicines business has also delivered a notable growth driven by our persistent and effective brand management efforts.

As an integral part of the growth strategy, the regional expansion plan of the Group has gained traction with management framework established and operations underway in a number of strategically selected locations with the aim to build a sustainable commercial platform in the region.

SOLID GROWTH FOUNDATION FOR GENERICS

Commanding one of the most extensive sales and distribution networks covering both the Private and Public Sectors in Hong Kong, along with its comprehensive product offerings and robust vertically-integrated supply chain, the Group has a solid foundation and enjoys a competitive position to drive sustainable growth in its generics business.

For the Reporting Period, the Generic Drugs business of the Group registered a growth of 6.3% in sales revenue, accounting for HK$1,253.0 million as compared to HK$1,178.8 million in FY2018. The Private and Public Sectors posted sales revenues of HK$845.2 million and HK$407.8 million respectively during the Reporting Period.

Robust Growth on Therapeutic Class Products

Growth impetus of the generic drugs market has been driven by the exacerbating healthcare demands from aging population and prevalence of chronic diseases. Therapeutic sectors such as oral anti-diabetic and cardiovascular have exhibited strong growths of over 30% for certain product offerings of the Group in Public Sector.

In addition, the Group's central nervous system products have also posted an encouraging growth in the Public Sector. The antipsychotics and hypnotics class has grown by 39.0% and the hypnotics class by 74.0% respectively with new businesses secured such as for Zolpidem Tablet, Amisulpride Tablet, Risperidone Tablet and Pericyazine Tablet.

The Group's Losartan Tablet (angiontensin II receptor antagonists) and Amlodipine Tablet (calcium-channel blockers) of the cardiovascular class, on the other hand, have taken up strong footholds in the market led by the quality issues of our rival products, thanks to our unwavering commitment and investment on quality compliance.

Similarly, Private Sector sales of angiotensin II receptor antagonists and calcium-channel blockers products also recorded a strong growth of 113.5% and 64.7% respectively, alongside a 16.9% growth in lipid-lowering drugs. Our hypnotics products within the central nervous system treatments likewise have posted a notable growth of 25.8% as compared to the same period of 2018.

Certain product offerings of the Group exhibited strong growths in therapeutic sectors such as cardiovascular, oral antidiabetics and central nervous system.

Concept photo taken by courtesy of Gleneagles Hong Kong

Sterile eye drops production by the Group which is the only active manufacturer of the dosage form in Hong Kong

New Products Introduction

With our continued effort in introducing quality generics to meet medical and patient needs, we have launched a number of new products in the Private Sector during the Reporting Period including Celecoxib Capsule, Etoricoxib Tablet, Valsartan Tablet, Irbesartan Tablet, and Levocetirizine Tablet.

During the Reporting Period, the Group also secured registration approvals for a number of new products under its R&D pipeline, for instances, Rivastigmine of the central nervous system class, Finasteride of the endocrine system class, Abacavir and Lamivudine combination product of the antiviral class and Voriconazole of the antifungal class, which are ready for launch and adding strength to our product portfolio.

Digitised CRM Platform for Boosting Sales Productivity and Competence

With the successful first-phase implementation of our sales productivity and effectiveness program powered by an advanced cloud-based customer relationship management ("CRM") platform which is developed by a global leading system provider Salesforce.com, our sales team is empowered with the mobile ordering capabilities for online inventory information access and order placement in the field with boosted sales efficiency and productivity.

Embarking on the second-phase implementation of the program, we aim at improving the effectiveness of our sales team on customer targeting with a tailored electronic sales call planning and reporting system designed to strengthen our capabilities to identify, connect and serve prospective customers to drive market penetration.

This second-phase sales effectiveness enhancement program also helps our sale force not only to actively track and manage customer information, but also collect market intelligence and deliver insights to support our new product developments in answering unmet customer needs.

Well-Positioned to Serve Evolving Healthcare Demands

In view of the strenuous efforts of the Hong Kong Government attempting to alleviate the strains in public healthcare system by integrating certain primary healthcare services with private practices, the demand from Private Sector for cost-effective generic drugs is likely to be enhanced. The Voluntary Health Insurance Scheme in Hong Kong, which was introduced on 1 April 2019 by Food and Health Bureau, will augment the number of citizens using private healthcare services. In addition, the Glaucoma Public-Private Partnership Program launched in 2019 provides choices to clinically stable glaucoma patients for receiving private specialist services in the community in order to manage demand for specialist services in Public Sector. As the only active manufacturer in Hong Kong for a handful of specialised dosage forms including sterile eye drops, the Group is well-positioned to cater such market trends and opportunities arising.

Smartfish – a line of clinically substantiated medical and sports nutrition products from Norway which will be launched in Greater China and selected Asian countries by the Group

TAPPING NEW MARKET POTENTIALS

On the front of business development as a key driver of our growth strategy, the Group has successfully forged strategic collaborations with multinational partners covering in-licensing and technology transfer of high-end generic drugs and biosimilars, and representation of finished brand products in the Asia Pacific region to tap new potentials of the burgeoning markets.

To supplement our R&D pipeline and broaden our portfolio of specialty drugs, the Group has signed agreements with leading pharmaceutical manufacturers in Spain, South Korea, Taiwan and other countries for the in-licensing of a total of 52 high-performing specialised drugs in the cardiovascular, central nervous system, anti-infective, oncology, gastrointestinal and other therapeutic areas during the Reporting Period, among which a number of items are eligible for tender bidding in the coming year including some injectable generic drugs.

The Group has also signed an exclusive agreement with a leading Swiss medical device company for the distribution of a patented formulation clinically substantiated for the effective control of Osteoarthritis-led synovial joint pain in Hong Kong, Macau and Taiwan. Osteoarthritis affects about 7% of men and 13% of women aged 50 or older in Hong Kong. In addition, the product category is under the National Health Insurance ("NHI") reimbursement scheme in Taiwan.

The Group also had a head start for the marketing of 0.01% and 0.05% Atropine Eye Drops (formulations clinically proven in helping slow down the progression of myopia among children) in Hong Kong, Macau, Guangdong Province, Singapore and Malaysia. By means of our extensive sales network and close rapport with medical professionals, we have built a market leadership position for the Atropine Eyes Drops with over 3,000 designated patients being prescribed with the product by registered medical practitioners in Hong Kong since its launch in the Reporting Period.

The Group has been the exclusive distributor of Genomic Health, Inc., the world's leading provider of genomic-based diagnostic tests, for its OncotypeDX® Breast Recurrence Score Test in Hong Kong and Macau. TAILORx, the lately published authoritative research study, has proven that with OncotypeDX® test about 70% of early stage breast cancer patients may be spared chemotherapy treatment in routine clinical practice and thus avoiding the unnecessary suffering associated with it. Presenting an estimation of about 4,000 and 210,000 new early-stage breast cancer patients in Hong Kong and Mainland China respectively in 2019, along with the rising awareness and demand for precise diagnosis and treatment for breast cancer, the Group is well-poised to exploit potentials of the market for the OncotypeDX® test which has redefined personalised medicine by making genomics a critical part of cancer diagnosis and treatment.

Targeting the high potential functional food and Food for Special Medical Purpose (FSMP) market segments, the Group has entered into in-licensing agreements with reputable manufacturers in Europe, namely Smartfish from Norway, Difass from Italy and Indigo of France for three lines of medical nutrition products which will be launched in Greater China and selected Asian countries in 2019 and onwards.

Aiming to improve the life quality and expectance of patients with rare diseases, especially those at young age, the Group has also extended its portfolio into orphan drugs. We have currently identified 41 items as "named patient basis products" for supply to the Public Sector in collaboration with reputable pharmaceutical companies from Switzerland and other countries. Furthermore, the Group's first orphan drug tender has been awarded in Malaysia.

Backed by our underlying market expertise, the Group will continue to drive the enrichment of its portfolio through in-house development or in-licensing of high value-added products covering sterile injections, oncology products, combination drugs, specialty medicines, as well as orphan drugs and biosimilars, thereby further strengthening its resilient position to tap the soaring health care demand of the local and regional markets in Asia.

MAKING GOOD HEADWAY ON REGIONAL EXPANSION

In line with the Group's vision and growth strategy, the Group has continued to orchestrate its strategic advance into selected markets in Asia. The expansion plan has gained traction with currently 5 operating business offices established in China, Macau, Taiwan, Singapore and Cambodia. Well-positioned to cover market opportunities in South Korea, Malaysia, Brunei, Indonesia and Myanmar, Singapore will serve as our regional office for South East Asia.

By building a regional market platform with strong commercial capabilities, along with the Group's proven track records of successful partnerships, the Group is well-poised to leverage its position as a "partner of choice" to collaborate strategically with reputable partners globally through licensing, technology transfer or product representation to tap the high growing market potentials in the Asia Pacific and Greater China regions.

Asia Pacific is now the second largest pharmaceutical market globally as fueled by the shift of demographics towards the use of cost-effective generic drugs, fast growing population, rapid urbanisation and government measures to increase accessibility of healthcare, which represents encouraging market potential for our businesses there.

CHARLIE AND THE CHOCOLATE FACTORY
Illustrated by
Quentin Blake
Imported by:
JACOBSON
MEDICAL
Jacobson Medical (Hong Kong) Limited
AIM麥迪森
Atropine
*不含防腐劑
不交互感染 不含防腐劑

0.01% and 0.05% Atropine Eye Drops, formulations of which are clinically proven in helping slow down the progression of myopia among children, will be launched in Hong Kong, Macau, Guangdong Province of the PRC, Singapore and Malaysia by the Group.

Po Chai Pills' 2018/19 creative advertising campaign themed "Fast Relief of 5 Major Gastrointestinal Problems"

Ho Chai Kung's 2018/19 creative advertisement campaign to rejuvenate brand appeal

REJUVENATING BRANDS AND GROWTH MOMENTUM FOR PROPRIETARY MEDICINES

Sales performance of the Group's proprietary medicines business during the Reporting Period witnessed an encouraging uptrend. The total revenue of the propriety medicines segment of the Group delivered a strong growth of 17.1% over last year.

Po Chai Pills (保濟丸), the most recognised household brand for Chinese gastro-intestinal medicine in Hong Kong with strong presence in overseas markets, achieved a sales growth of 15.6% over same period of last year, underpinned by our persistent efforts in marketing, brand building and promotional drives across the trade, retail and chain store channels.

In addition, overseas sales of Po Chai Pills registered a notable growth of 19.0% for overseas markets covering mainly Singapore, Macau and Mainland China. New product registration for Po Chai Pills in Cambodia has been successfully secured, paving way for its launch into the local market.

Targeting to rejuvenate and broaden the brand's appeal among younger consumers, Po Chai Pills has been committed to a compelling creative brand building and marketing strategy in its advertising and education campaign developments attuned to induce consumer interest and impact, example of which was the recently launched creative campaign themed "Fast Relief of 5 Major Gastrointestinal Problems" hosted by Jim Yan Chi Hong (少爺占), a well-known radio DJ and humorous artist who played multiple amusing comical characters in the TV commercial. This creative campaign proved to be a hit in its launch with the high viewership rate and positive comments from the online and social media platforms.

Also riding on our brand rejuvenation strategy, Ho Chai Kung (何濟公), the widely recognised heritage brand in the analgesics category, has recently launched a new marketing campaign with a creative advertisement design featuring popular TV artist Louis Yuen (阮兆祥) in contemporary appeal with the objective to reinforce its strong brand recognition for consumers in Hong Kong and the Greater Bay Area.

Ho Chai Kung brand products posted a steady growth of 8.3% in sales revenue over last year contributing a positive growth momentum to the proprietary medicines business of the Group during the Reporting Period.

The business of medicated oils of the Group also showed remarkable growth during the Reporting Period. Sales revenue of Flying Eagle Woodlok Oil (飛鷹活絡油) and Shiling Oil (十靈油) delivered a significant growth as a result of coordinated sales and distribution strategies and a revival of sales coverage in certain markets. Enhanced marketing efforts and resources have been allocated for boosting the brand image of Shiling Oil, with new product developments under Shiling Oil in the pipeline.

ROBUST R&D PIPELINE

Embedding a disciplined approach with a focus on premium generics and specialised formulations, the Group's R&D program continued to make good progress in its product development pipeline.

A total of 17 new products, including Etoricoxib Tablets 30mg/60mg/90mg/120mg, Aripiprazole Tablet 5mg/10mg/15mg and Abacavir and Lamivudine Tablets were successfully registered during the Reporting Period and ready for launch and supply in Hong Kong.

Six other new products have completed the development process and testing, and applications for approval have been submitted to the Department of Health. 16 items are undergoing stability study and pending for registration submission.

Test experiment on an innovative non-invasive technology in prostate cancer screening

As at the end of the Reporting Period, there are 99 products in the Group's pipeline, 44 of which have been approved for registration and 55 products are under different stage of development process.

COLLABORATIVE PROJECTS FOR INNOVATIVE TECHNOLOGIES

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

The Group has finalised the intellectual property transfer and licensing agreement with the target company in this collaborative project for the development and commercialisation of an innovative, non-invasive, accurate diagnostic test for prostate cancer. Designated task forces have been set to execute plans for establishment of accrediting facilities, launch of multi-center clinical trials, regulatory registration and product commercialisation in HK and other major markets.

Commercially applied as a home-based diagnostic kit, this innovative non-invasive screening device for Prostate Cancer will be targeted for global market roll-out with commercial launch planned for Hong Kong and Macau between 2019 and 2020. Impeccable product design of this diagnostic kit is being undertaken by a renowned United Kingdom ("UK") medical design firm, scheduled for manufacturing preparation by the end of 2019. Multi-center clinical trials have commenced in Q1 of 2019, with ethical application in Japan completed and followed by samples collection. Preparations for ethical applications in UK, France and Korea are underway with good progress.

Garnering the accolade of Gold Medal at the 47th International Exhibition of Inventions of Geneva 2019, this innovative prostate cancer diagnostic technology can provide a fast and convenient option to verify the results of the "gold standard" test in prostate cancer screening, i.e., blood prostate-specific antigen (PSA) level, with the significant benefits of improved patient experience and minimising the possibility of unnecessary prostate biopsy procedures.

Technology Development Collaboration with Nano & Advanced Materials Institute Limited (NAMI) on Alzheimer's Disease Early Detection

Targeted for launch in Q3 of 2019, this innovative nanotechnology-based laboratory test method in drug research and development for Alzheimer's disease can provide a more cost effective and time saving versatile animal test method with high sensitivity and resolution for the Beta Amyloid protein detection in the brain, when compared with other available tests on the market.

This collaborative research project with NAMI on "Novel Nanoparticles for Pre-clinical Diagnosis for Early Alzheimer Detection and Drug Development" has achieved encouraging recognition in its introduction with the winning of the Gold Medal Award at the 45th International Exhibition of Inventions of Geneva.

Collaboration Project with Hong Kong Institute of Biotechnology (HKIB) on In-process Quality Control Technology

The project has entered its second phase with the scaling up of the research at production site for actual manufacturing process.

Being a new pharmaceutical production technology in Hong Kong, this 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 aimed at vastly enhancing the product quality and efficiency of the manufacturing process.

Approval has also been granted to another collaboration project with HKIB under government funding which was kick-started in Q1 of 2019. The project studies and explores the usage of Confocal Raman Microscope technology in specified manufacturing processes. It provides the capability to precisely control and manage the manufacturing process which makes sure the complicated formulation, ingredient distribution and specified in-vivo efficacy are achievable.

STREAMLINED OPERATION FOR ENHANCED PRODUCTION EFFICIENCY

All of the Group's manufacturing units operated effectively during the Reporting Period with production outputs totaling 2,939 million tablets and capsules, 318 tonnes of cream products and 2,463 thousand litres of oral liquid to keep pace with the demand.

The overall capacity and efficiency of the Group's manufacturing facilities have been benefitted from its effectively managed integration and streamlining program, bolstering for instance an average per annum enhancement of production output for solid dosage and semi-solid dosage products at 11% and 20% respectively from 2014 to 2019.

The Group's new PIC/S GMP accredited manufacturing plant at Synco (H.K.) Limited, equipped with machinery for high throughput capability, further ramped up its solid dosage and liquid output by 25.8% and 23.4% respectively over the same period of last year to boost the Group's output capacity.

The newly acquired business units continued to contribute to the enhancement of the Group's production capability and capacity to cater for the increasing market demand. The increased production capacity and efficiency has enabled us to build a healthy buffer stock to ensure stable supply for our key customers in both Public and Private Sectors.

A versatile, nanotechnology based innovative laboratory test method in drug research and development for Alzheimer's disease is commercialized and targeted for launch in Q3 of 2019

REMUNERATION POLICY

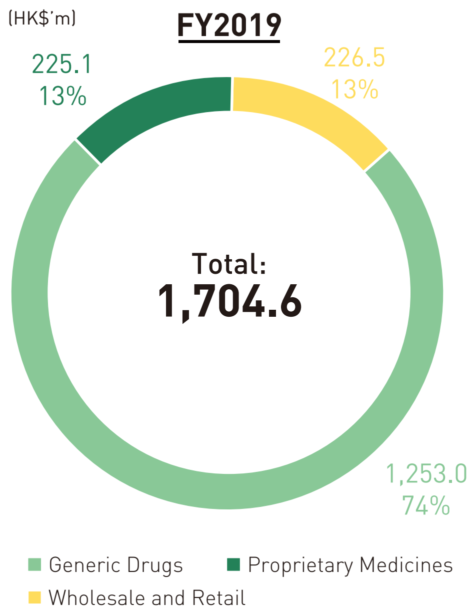
As of 31 March 2019, the Group had a total of 1,822 employees. For the Reporting Period, the total staff cost of the Group was HK$423.0 million as compared to HK$417.1 million for the year ended 31 March 2018. All the Group's employees have entered into standard employment contracts with the Group. Remuneration packages for the Group's employees in general comprise one or more of the following elements: basic salary, sales-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, staff development plan and training need analysis. The Group provides various benefit schemes to its employees including annual leave entitlement, mandatory 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 2019, 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.

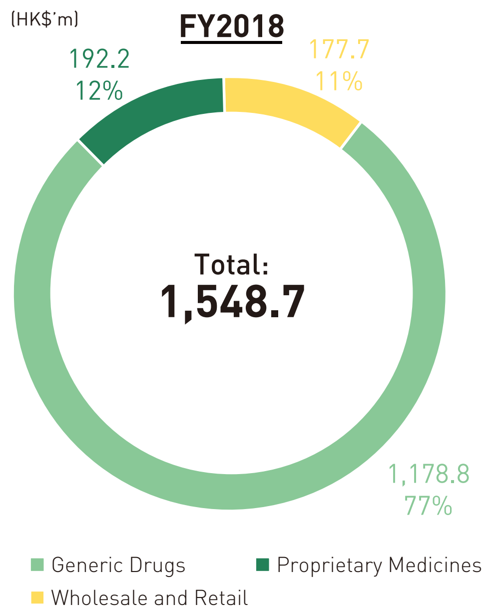
The Group places high values on recruiting, developing and retaining its employees. It maintains high recruitment standards, provides competitive compensation and benefit packages to attract and retain employees. The Group also emphasizes on training and developing employees. In addition to different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



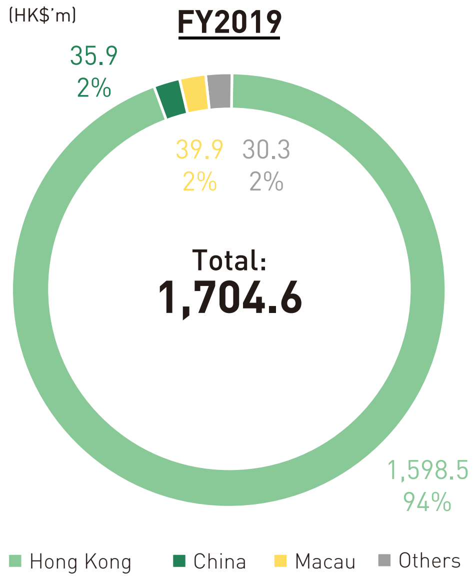


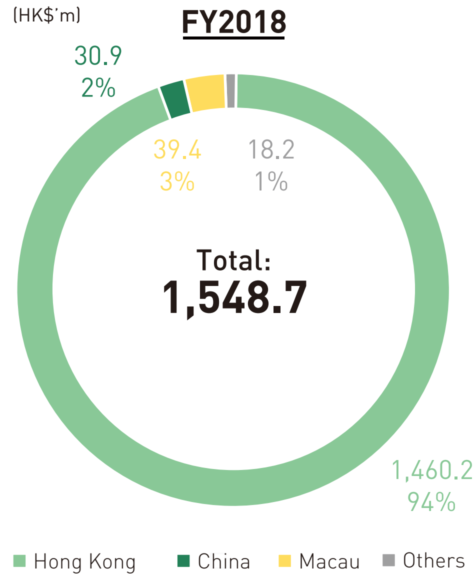
The increase in revenue of HK$155.9 million or 10.1% compared to FY2018 was contributed by the increase in revenue of HK$74.2 million in Generic Drugs, HK$32.9 million in Proprietary Medicines as well as HK$48.8 million in Wholesale and Retail segment. Revenue split of the three segments are at the ratio of 74%, 13% and 13%.

In Generic Drugs segment, the increase composed of the higher revenue from both Public Sector and Private Sector, amounted to HK$35.8 million and HK$38.4 million respectively. The growth in Public Sector was primarily attributed to sales increase in therapeutic class products. The growth in Private Sector was mainly contributed by the launch of new pharmaceutical products.

In Proprietary Medicines segment, the increase in revenue was mainly attributable to the increase in sales of Po Chai Pills, Flying Eagle Woodlok Oil and Ho Chai Kung brand products.

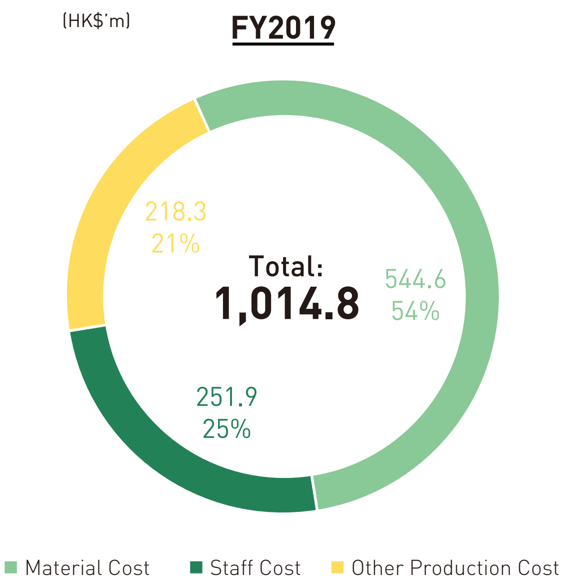
Revenue by Geographic Location

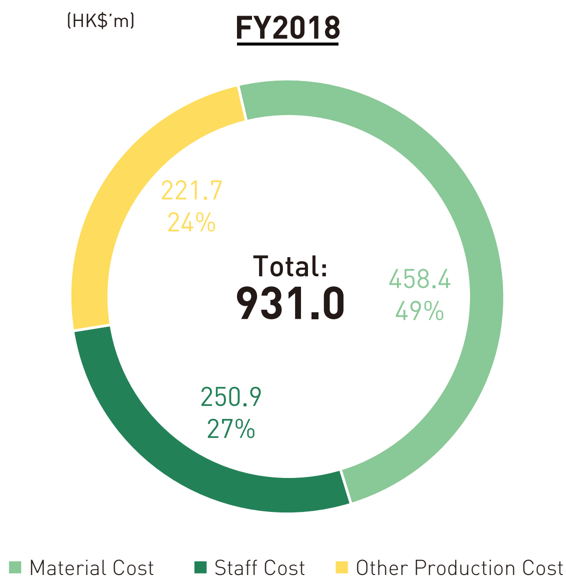




Hong Kong continued to be the major revenue stream, representing 94% of the total revenue and contributed an increase in revenue of HK$138.3 million. The revenue in the Mainland China increased by HK$5.0 million principally due to the expanded sales of Flying Eagle Woodlok Oil which was partially offset by the drop in sales of Puji Pills. The revenue increase in Macau by HK$0.5 million was mainly contributed by Po Chai Pills and Ho Chai Kung brand products. The increase in revenue from other overseas market of HK$12.1 million was mainly due to the increase in sales in South East Asia, Canada and South America.

COST OF SALES



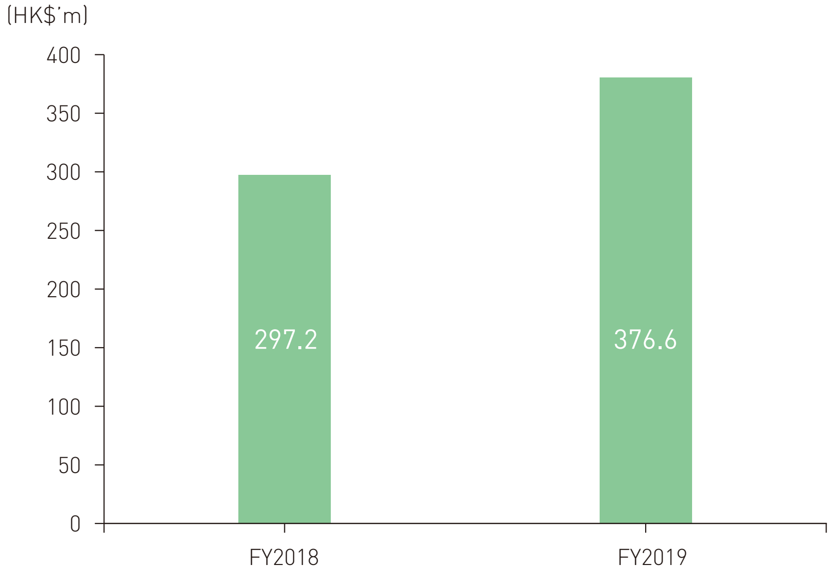


Material cost continued to be the major component constituting approximately 54% of the total cost of sales. The increase in weighting reflected the increase in revenue split from Wholesale and Retail segment, which has a higher material cost than the other two segments.

Staff cost increased slightly by HK$1.0 million or by 0.4% as a result of our continued effort in our production process automation.

The decrease in other production cost reflected the decrease in production overheads as a consequence of the implementation of a series of cost control measures during the Reporting Period.

PROFIT FROM OPERATIONS



The profit from operations rose from HK$297.2 million to HK$376.6 million or by HK$79.4 million or 26.7%. The enhancement in the profit from operations was principally contributed by the increase in gross profit and other net income of HK$72.2 million and HK$18.0 million respectively while offset by the increase in selling and distribution expenses, along with administrative and other operating expenses of HK$10.6 million and HK$0.2 million respectively.

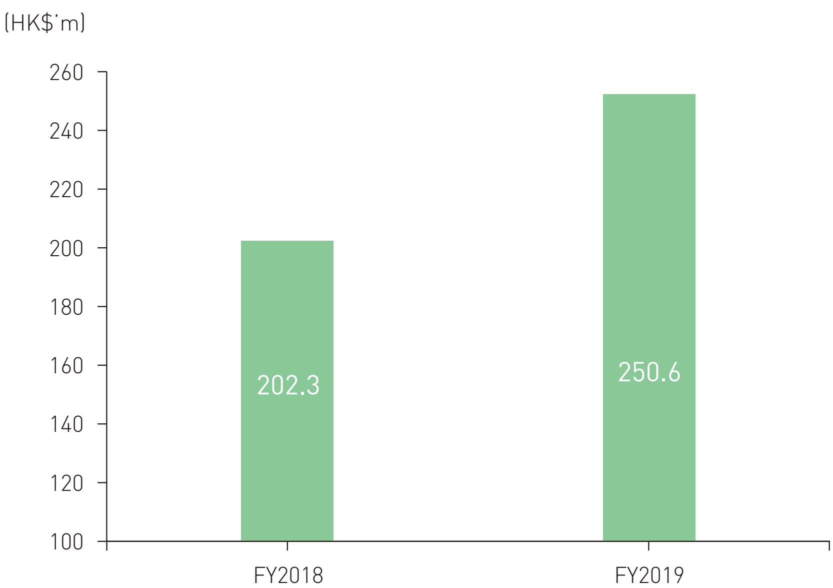
FINANCE COSTS

The increase in finance costs mainly reflected the additional interest and amortisation arising from the convertible notes issued in October 2017.

INCOME TAX

The increase in income tax principally reflected the higher profit before taxation generated. The increase in effective tax rate was mainly attributable to non-tax deductible finance costs arising from the convertible notes issued in October 2017.

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

Investment properties and other property, plant and equipment

The increase in investment properties and other property, plant and equipment principally reflected the additions of HK$408.8 million and fair value adjustment in investment properties of HK$23.4 million offset partially by the depreciation of HK$86.7 million.

Intangible assets

The decrease in intangible assets principally reflected the amortisation of HK$27.5 million and offset partially by the additions and capitalisation of development costs of HK$4.5 million and HK$9.4 million respectively.

Inventories

The increase in inventories mainly resulted from the overall sales growth.

Cash and cash equivalents

As at 31 March 2019, around 95.6% of cash and cash equivalents were denominated in Hong Kong dollars (as at 31 March 2018: 65.1%), while the remaining balances were mainly denominated in Renminbi, Singapore dollars and Taiwan dollars.

LIABILITIES

Bank loans

The decrease in bank loans from HK$903.9 million as at 31 March 2018 to HK$829.6 million as at 31 March 2019 represented certain settlements of bank loans while offset partially by the additions of bank loans principally for mergers and acquisitions and capital investment during the Reporting Period.

As at 31 March 2019, all the bank loans of the Group were denominated in Hong Kong dollars.

USE OF PROCEEDS

Net proceeds of HK$695,540,000 were raised from the initial public offering of the Company (included proceeds from the over-allotment option exercised by the underwriter amounted to HK$98,438,000 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 2019:

	Proposed application HK$'000	**Actual usage up to 31 March 2019** HK$'000
Acquisitions – Expansion of businesses in Generic Drugs and Proprietary Medicines	139,108	139,108
Acquisitions – Enhancement of distribution network	104,331	26,926
Acquisitions – Intangible assets	69,554	69,000
Capital investments – Upgrading of manufacturing plants and facilities	113,197	113,197
Capital investments – Two specific automated production facilities	12,000	12,000
Expansion of bioequivalence clinical studies	94,331	36,784
Establishment of a new joint R&D centre with HKIB	10,000	2,709
Marketing and advertising	83,465	58,662
General working capital	69,554	69,554
	695,540	527,940

The net proceeds of HK$695,540,000 were used, or are proposed to be used, according to the intentions previously disclosed by our Company's prospectus dated 8 September 2016.

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 following table sets out the proposed application of the net proceeds and the actual usage up to 31 March 2019.

	Proposed application HK$'000	**Actual usage up to 31 March 2019** HK$'000
Funding potential mergers and acquisitions as well as forming strategic alliances in the Asia Pacific region (Note)	411,352	248,952
Supporting in-licensing and direct investment on technologically-oriented bio-pharmaceutical projects	79,000	42,411
	490,352	291,363

Note: The potential mergers and acquisitions are in relation to proprietary medicines business, pharmaceutical projects as well as forming strategic alliances in the Asia Pacific region.

The net proceeds of HK$490,352,000 were used, or are proposed to be used, according to the intentions previously disclosed by our Company's announcements dated 6 September 2017 and 3 October 2017. The Company expects that the unutilised net proceeds will be used up on or before 31 March 2020.

Net proceeds of HK$411,658,000 were raised from the issuance of shares to Yunnan Baiyao (after the deduction of all related fees and expenses payable in connection with the issuance of shares of HK$342,000). The following table sets out the proposed application of the net proceeds and the actual usage up to 31 March 2019:

	Proposed application HK$'000	**Actual usage up to 31 March 2019** HK$'000
Mergers and acquisitions, strategic alliances and in-licence of products	205,829	6,950
Acquisition, expansion and upgrading of operating facilities	164,663	164,663
General working capital	41,166	41,166
	411,658	212,779

The net proceeds of HK$411,658,000 were used, or are proposed to be used, according to the intentions previously disclosed by our Company's announcements dated 14 August 2018 and 3 September 2018.

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 sound 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, bank borrowings and the issuance of shares.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

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$464.0 million as at 31 March 2018 to HK$871.6 million as at 31 March 2019, which was mainly due to investment properties acquired during the Reporting Period amounted to HK$356.8 million were pledged for bank loans to facilitate related acquisitions.

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%) decreased from 34.6% as of 31 March 2018 to 24.8% as of 31 March 2019. The decrease in net gearing ratio was attributable to the issuance of shares and the reduction of bank loans during the Reporting Period.

FINANCIAL RISK ANALYSIS

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

CONTINGENT LIABILITIES

As of 31 March 2019, 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 to the Listing Rules as its own code of corporate governance.

For the year ended 31 March 2019, 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. Detail 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 reviews 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, Professor Lam Sing Kwong, Simon, Dr. Lam Kwing Tong, Alan and Mr. Young Chun Man, Kenneth 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 formulation 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 has 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 organised an internal training session in relation to the updates on (a) 2018 and 2019 Listing Rules amendments and their impact; (b) 2018 case enforcement by the Stock Exchange for breaches of Listing Rules; and (c) SFC's recent exercise of their power over listed companies, as well as Hong Kong transfer pricing updates. 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 enhanced their knowledge relating to the Listing Rules 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 of the Audit Committee), 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 "Board Meetings" of this report.

During the Reporting Period, the Audit Committee performed its work as summarised below:

(i) reviewed and recommended for the Board's approval of the financial reports for the year ended 31 March 2018 and the interim period ended 30 September 2018;

(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 and recommended to the Board to amend its terms of reference for compliance with the amendments to the Corporate Governance Code and Corporate Governance Report (the "CG Amendments") with effect from 1 January 2019;

(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 the effectiveness of the Remuneration Committee and the adequacy of its terms of reference. The Remuneration Committee also reviewed the remuneration packages of individual non-executive Directors and senior management, the Company's policy and structure for the remuneration of all directors and senior management.

Details of the remuneration of the senior management, who are the Directors, are set out in note 6 to the consolidated financial statements.

The emoluments of the Directors by band for the year ended 31 March 2019 is set out below:

In the band of	Number of individuals
Nil to HK$1,000,000	4
HK$1,000,001 to HK$2,000,000	1
HK$2,000,001 to HK$3,000,000	0
HK$3,000,001 to HK$4,000,000	0
HK$4,000,001 to HK$5,000,000	2

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 (the "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 maximise 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 refer to the policy adopted by the Company for selection of directors (the "Director Nomination Policy") and consider candidates against objective criteria, such as candidate's character, integrity, 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 once at which the committee members reviewed the structure, size and composition of the Board, the independence of the independent non-executive Directors and the Board Diversity Policy. 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 currently 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.

In addition to the above Executive Committee meetings, the Executive Committee dealt with matters by way of circulation of written resolutions during the Reporting Period.

Board Diversity Policy

The Board Diversity Policy was adopted by the Company on 30 August 2016 and revised on 21 November 2018. The Company is committed to equality of opportunity in all aspects of its business and does not discriminate on the grounds of race, gender, independence, 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 recognising 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 perspectives 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 maximise 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 Board Diversity 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 reviewed and confirmed the effectiveness of the Board Diversity Policy. In addition, the Board approved the revision of the Board Diversity Policy on 21 November 2018 for compliance with CG Amendments with effect from 1 January 2019.

Director Nomination Policy

The Director Nomination Policy was adopted by the Company pursuant to the Board resolutions passed on 21 November 2018.

A summary of the Director Nomination Policy is set out below.

CRITERIA ADOPTED FOR SELECTION AND RECOMMENDATION FOR DIRECTORSHIP

In evaluating and selecting any candidate for directorship, the following criteria should be considered:

- Character and integrity.
- Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy.
- Any measurable objectives adopted for achieving diversity on the Board.
- Requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules.

Director Nomination Policy (Continued)

CRITERIA ADOPTED FOR SELECTION AND RECOMMENDATION FOR DIRECTORSHIP (CONTINUED)

- Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity.
- Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company.
- Such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

NOMINATION PROCESS

(a) Appointment of New Director

(i) The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

(ii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

(iii) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

(iv) For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of director at the general meeting.

(b) Re-election of Director at General Meeting

(i) The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring Director and his/her level of participation and performance on the Board.

(ii) The Nomination Committee and/or the Board should also review and determine whether the retiring Director continues to meet the criteria as set out above.

(iii) The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of Director at the general meeting.

Where the board proposes a resolution to elect or re-elect a candidate as Director at the general meeting, the relevant information of the candidate will be disclosed in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

As delegated by the Board, the Nomination Committee will, in addition to conducting regular review on the structure, size and composition of the Board, conduct regular review on the Director Nomination Policy and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs.

Dividend Policy

Apart from compliance with the applicable legal requirements, a dividend policy (the "Dividend Policy") was adopted by the Company pursuant to the Board resolutions passed on 21 November 2018, which sets out the guidelines for the Board to determine whether to pay a dividend and the level of such dividend to be paid. In general, it is the policy of the Company to share with its shareholders in the Company's profits with reasonably stable and consistent dividends whilst retaining adequate reserves and financial resources for future growth drivers such as mergers and acquisitions activities. Normally, the Company pays dividends twice a year, which are the interim and final dividends. The policy also contains a number of factors for which the Board has to consider in determining the frequency, amount and form of any dividend in any financial year/period.

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 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 (Note)
Mr. Sum Kwong Yip, Derek *(Chairman)*	6/6	N/A	N/A	N/A	2/2	1/1
Mr. Yim Chun Leung	6/6	N/A	N/A	1/1	2/2	1/1
Ms. Pun Yue Wai	6/6	N/A	2/2	N/A	2/2	1/1
Professor Lam Sing Kwong, Simon	6/6	N/A	N/A	N/A	N/A	1/1
Dr. Lam Kwing Tong, Alan	6/6	2/2	2/2	1/1	N/A	1/1
Mr. Young Chun Man, Kenneth	6/6	2/2	2/2	1/1	N/A	1/1
Professor Wong Chi Kei, Ian	6/6	2/2	N/A	1/1	N/A	1/1

Note: The 2018 annual general meeting of the Company was held on 7 September 2018.

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 2019, 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 66 to 70 of this Annual Report.

Accountability and Audit (Continued)

RISK MANAGEMENT AND INTERNAL CONTROL

During the Reporting Period, the Group has engaged external consultants to review the risk management framework including the risk management policy (the "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 (which was outsourced to external consultants) 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 categorised 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 2019 and considered them to be effective and adequate. 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 internal control 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 2019 were HK$5,485,000 (2018: HK$6,380,000) and HK$2,756,000 (2018: HK$2,684,000) 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 shareholders' interests and rights, separate resolution should 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 duly registered shareholder(s) of the Company 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 (www.jacobsonpharma.com/download/Procedures_e.pdf).

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 names, 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 investor 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 Environmental, Social and Governance Report (the 'ESG Report') of the Group for the year ended 31 March 2019. The ESG Report is to be read in conjunction with the Group's 2019 Annual Report (http://www.jacobsonpharma.com/html/inverstor-relations.php#financial-reports), in particular the Corporate Governance Report contained therein.

About Jacobson

Jacobson is a leading pharmaceutical company in Hong Kong vertically integrated in the research, development, production, sale and distribution of generic drugs and proprietary medicines with a multidisciplinary team of over 1800 employees. As a major provider of generic drugs in Hong Kong, the Group has one of the most extensive sales and distribution coverage for both the private and public market sectors in Hong Kong, with an expanding reach into strategically selected markets in Asia.

Carrying a broad product portfolio in various therapeutic classes, the Group operates 9 licensed production facilities for generic drugs in Hong Kong and 1 in Zhongshan, China. The Group also operates 2 GMP-accredited production facilities for proprietary Chinese medicines located in Hong Kong.

Jacobson also owns a host of proprietary medicine brands with strong heritage which include household names such as Po Chai Pills, Ho Chai Kung, Saplingtan/Shiling Oil, Flying Eagle Woodlok Oil and Tong Tai Chung Woodlok Oil.

The principle operation location of the Group is in Hong Kong which contributes to more than 90% of the Group's total revenue. Overseas distribution of the Group's products covers countries such as China, Macau, Singapore, Malaysia, United States and Canada.

1.2 SCOPE OF THIS REPORT

This report covers 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 the 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

The ESG Report was approved by the Board on 25 June 2019.

1.5 FEEDBACK TO THE ESG REPORT

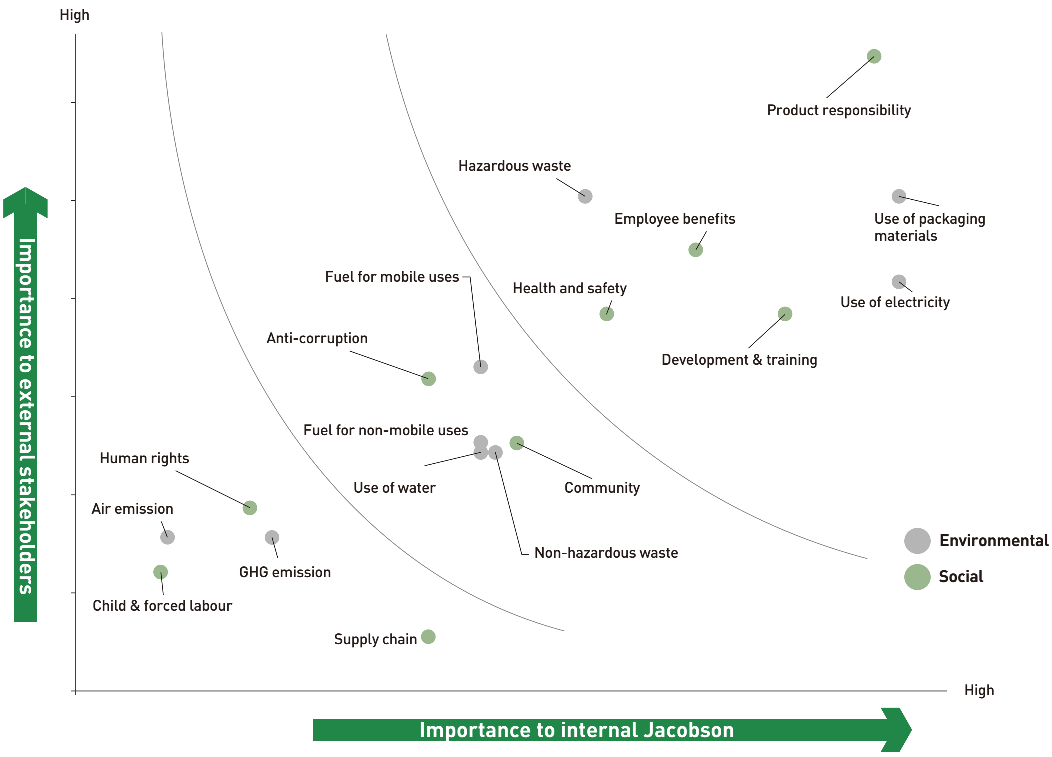
Please share your comments and suggestions on this ESG Report. You may submit your feedback online: http://www.jacobsonpharma.com/html/contact-us.php. Comments and suggestions regarding the Group's ESG performance are also welcome and can be sent to the Company Secretary.

2 Our approach to ESG reporting

2.1 STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

In order to formulate the Group's ESG management, it is essential to identify the materiality of ESG. The material aspects on ESG was identified through stakeholder engagement, which was conducted through interviews and surveys, primarily engaging the top management representatives from various departments and functions. The Group's stakeholders are industry experts and possess strong pharmaceutical knowledge as well as understanding of the potential risks faced by the industry, such as regulatory requirements, product responsibility and client expectations. Jacobson intends to expand the scope of stakeholder engagement in the future to achieve more comprehensive materiality results. The Group's materiality assessment results are listed below.

Materiality Matrix



It is to be noted that the positioning of the aspects in the matrix suggests only their relative importance. On the basis of the findings of the materiality assessment, the areas identified to be the most significant under the Group's environmental and social aspects 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

Jacobson strives to ensure environmental protection and comply with all applicable environmental laws and regulations in the locations where it operates. In addition, the Group is committed to reducing the environmental impacts through proper management by minimising its environmental emissions and resource consumptions. The Group strives to adopt environmentally friendly measures in its business operations where practicable. In addition, the Group continues to engage its staff to enhance their awareness about environmental protection.

In accordance with the materiality results, Jacobson's material environmental issues have been mapped with its operations and summarised 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 generated from drug production

3.2 USE OF RESOURCES

3.2.1 Use of packaging materials

A major concern for Jacobson is the use of packaging material as it directly impacts the product quality. The main packaging materials used by the Group are colour boxes, inserts, labels and outer cartons.

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

The business units are required to monitor their usage of packaging materials and submit reports on a monthly basis.

Value of packaging material used	Unit	FY2019	FY2018	% Change
Outer carton	HKD	2,979,619	4,093,751	–27%
Colour box	HKD	21,500,144	20,583,372	+4%
Insert	HKD	2,085,637	2,255,087	–8%
Label	HKD	4,226,328	4,442,264	–5%

3.2.2 Use of energy

Jacobson relies on energy for drug production. Electricity is the main energy source for the Group's Hong Kong operations, and town gas is also used in two of its manufacturing facilities. The Group's clean rooms are under stringent and continual temperature and humidity controls, which are the most energy-intensive aspect among its facilities.

In 2016, Jacobson appointed an academic researcher to conduct an energy-saving study at its production facility, Synco (H.K.) Limited in Tai Po by using retro-commissioning to periodically check the existing building performance, then via various setting of control strategies including adjusting the temperature set points and damper controls on the 39 air-side systems in the building to minimise the energy use. Building on the successful experience at Synco (H.K.) Limited, we extended the study to Li Chung Shing Tong (Holdings) Limited, another production facility with a similar setting in Tai Po in 2017.

3 Environment (Continued)

3.2 USE OF RESOURCES (CONTINUED)

3.2.2 Use of energy (Continued)

In addition to adjusting the temperature set points and damper controls, the energy efficiency study of Li Chung Shing Tong (Holdings) Limited also looks into optimising the counteraction between its energy use in heating and cooling. A numerous monitoring devices have already been installed in the building to keep track of the electricity consumption and to collect date from different aspects of the facility for analysis. As a result of the comprehensive energy programme, the electricity and towngas consumption at Synco (H.K.) Limited has reduced by 9% and 14% respectively compared to last financial year, despite the increase in production volume.

Apart from facility-level energy-saving studies, Jacobson is also retrofitting its existing buildings with LED lighting. As of March 2019, we have replaced the lighting at half of our facilities with LEDs which are more energy-efficient.

In addition to hardware, the Group believes that human behaviour also plays an important role in improving energy efficiencies. The Group will continue to encourage employees to adopt an environmentally conscious mindset. Across its premises, the Group has placed green tips at prominent locations to remind its staff to turn off computers and lighting when not in use.

Use of energy[1]	Unit	FY2019	FY2018	% Change
Use of electricity	kWh	29,641,085	29,892,002	–1%
Intensity of electricity use	kWh/HKD	0.017	0.019	–11%
Use of town gas	Unit	11,538,912	13,635,024	–15%
Intensity of town gas use	Unit/HKD	0.0068	0.0088	–23%

3.2.3 Others

Use of water

Water is essential in Jacobson's production process. However, quality is more important than quantity within the Group's operations. The Group uses purified water in the drug production processes. Jacobson has extremely stringent requirements on water quality and monitors the water purification system closely to ensure the quality of water is met. While we have not encountered any issue in the sourcing of water, we will continue to explore opportunities to implement future savings as a good practice in natural resource conservation.

Water consumption[1]	Unit	FY2019	FY2018	% Change
Use of water	m^3	171,962	165,305	+4%
Intensity of water use	litre/HKD	0.101	0.106	–5%

Use of fuel (mobile and stationary source)

Jacobson, through its in-house logistic arms, primarily distributes its products to hospitals, clinics, retail outlets and trading companies in Hong Kong. Most of the Group's trucks are EURO V diesel vehicles, which help enhance the efficiency of fuel consumption and reduce greenhouse gas emissions. The Group also implements good routing practices by identifying the most efficient routes for delivery to minimise fuel consumption and delivery time.

Use of paper

The Group strives to reduce paper consumption in its operations. In September 2017, it launched a mobile ordering system, which provided a more convenient ordering channel for retail pharmacies. This system has sped up the ordering process and helped reduce the use of paper in its sales operations. In addition, Jacobson plans to introduce the SAP system to more business units, enabling electronic approval of payments to reduce paper use from written approvals.

1 Intensity figures are calculated using the Group's revenue of HKD1,704.6 million in FY2019 and HKD1,548.7 million in FY2018

3 Environment (Continued)

3.3 EMISSIONS

3.3.1 Waste management

Hazardous waste

Jacobson, being a drug manufacturer, must comply with Hong Kong's Waste Disposal Ordinance (Chapter 354) related to the disposal of hazardous waste. The major hazardous wastes produced in the Group's operations are dangerous drugs, poisons and common chemical wastes. The chemical wastes are mainly from the quality control testing of pharmaceutical products, and the minimum amount of samples are used to reduce the generation of such wastes. The Group has put in place detailed standard operating procedures (SOPs) to properly handle and store hazardous wastes on-site, as well as keep monthly record of each type of chemical waste disposed.

The disposal of chemical waste is handled by the quality assurance department of different business units, 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**	**FY2019**	**FY2018**	**% Change**
Hazardous waste disposed	kg	103,284	109,298	–6%
Intensity of hazardous waste disposed	g/HKD	0.06	0.07	–14%

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, Jacobson seeks to achieve the concept of '3Rs' (reduce, reuse and recycle) as well as strives to raise the environmental awareness of its employees. The Group has also engaged a cleaning contractor to collect and handle the recycling and disposal of general waste. Jacobson has adopted various measures to minimise waste generation, including:

- setting up recycling bins to collect 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 the Group's production, in terms of quality and quantity. Jacobson does not have on-site wastewater treatment facilities at its production facilities in Hong Kong, and discharges the wastewater produced at these facilities into the public sewer. In order to meet regulatory requirements, the Group has installed wastewater treatment facilities at its manufacturing plant in China.

3.3.3 Air emissions

Air emission is immaterial to the Group's production, in terms of quality and quantity. In order to meet GMP requirements, we have installed an air filtration system in all fume hoods of the Quality Control laboratory and Heating, Ventilation, and Air Conditioning (HVAC) system at Vickmans, our antibiotic manufacturing facilities.

3.3.4 Compliance status

During the reporting period, Jacobson 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.

2 Intensity figures are calculated using the Group's revenue of HKD1,704.6 million in FY2019 and HKD1,548.7 million in FY2018

3 Environment (Continued)

3.4 ENVIRONMENT AND NATURAL RESOURCES

Jacobson 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 the relevant licence in accordance with the Protection of Endangered Species of Animals and Plants Ordinance (Chapter 586).

4 Product responsibility

As a pharmaceutical manufacturer, Jacobson's key focus is to ensure its products are safe, effective and of high quality.

4.1 QUALITY OF PRODUCTS

Jacobson has stringent control on regulatory compliance and product quality. The Group has all the necessary licences, permits and approvals for our production facilities. All of the Group's production facilities in Hong Kong are accredited to the PIC/S GMP Guide set forth by the Pharmacy and Poisons Board of Hong Kong since 1 October 2015. Furthermore, Jacobson's generic drug manufacturing facility in China is implementing the GMP 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 the 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 – in order to achieve a high level of safety and quality standards of all medicines produced.

Product quality control and assurance

At the production stage, the quality assurance and quality control departments work together to comprehensively monitor product quality. The quality assurance department ensures the GMP compliance standard is met and monitors the pharmacovigilance system, which is responsible for managing adverse drug reaction events. The quality control department ensures necessary and relevant tests are 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, the Group performs quality control tests on all such materials and only uses qualified materials in the manufacturing process. Jacobson manufactures and packages 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 be performed effectively and reproducibly to produce a medicinal product that meets its predetermined specification and quality attributes. The Group performs quality control tests on the full specifications for every batch of finished products. The products are released for sale only after confirming compliance to product specifications. In the rare case of product failure, the Group has in place product recall procedures with reference to the Pharmaceutical Products Recall Guidelines issued by the Department of Health of Hong Kong.

Jacobson's quality control department is responsible for preparing analytical procedures, establishing raw materials and product specifications, as well as conducting 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. The Group has adopted and conducted microbiological testing and measures on-site as stipulated by the Department of Health of Hong Kong. Furthermore, the Group's quality control department is responsible for the verification of manufacturing processes, environmental and water monitoring, method and process validation, and equipment calibration.

While supplying raw materials including active pharmaceutical ingredients (APIs) to the Group, 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 products are finally released from the quarantine area only after 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 Product responsibility (Continued)

4.2 PROMOTION AND SALES

Jacobson is primarily engaged in direct sales in Hong Kong and uses well-established third-party overseas distributors in China, Macau, Singapore, Malaysia, Indonesia and the United States.

The Group's operations are subject to various laws, rules, regulations and policies in each jurisdiction that it operates in. For advertising and labelling of the products, Jacobson always adheres to the legal requirement to ensure it does not convey false or misleading messages about its products. The Group, being a member of the Hong Kong Association of the Pharmaceutical Industry, strictly follows the code of conduct, including the guidelines in drug promotion and sales.

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

For the retail business like Hong Ning Hong Limited, the Group sources from manufacturers or designated distributors to ensure the goods are genuine. Once the goods are received, the Group performs checks to ensure proper labelling and instruction. The Group stores the goods in an air-conditioned place, or under designated temperature as instructed by vendors or product labels. The Group's staff regularly checks the expiry date of goods, and any expired goods will be properly treated. In order to prevent expired goods from reaching customers, Jacobson ensures such products are properly marked before disposal. For goods that require special treatment, the Group seeks 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

Jacobson actively engages with its suppliers so that they are aware of and comply with its standards on business ethics, environment, and health and safety.

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

Raw materials used for the production of the Group's 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 on the basis of 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.

The Group has designated teams that are responsible for purchasing raw materials and that routinely monitor the suppliers for any incidents or regulatory warnings. In addition, the Group maintains long-term relationships with suppliers of raw materials of proprietary drugs. During the year, we have identified quality concerns regarding two raw materials provided by one of our PRC suppliers. In response, we have performed additional tests on the same types of materials we ordered from this supplier to ensure that all received batches of the raw material are free of impurities. We had delisted the supplier for this type of raw material, and sourced new suppliers for future replacement.

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

6 Employee

6.1 EMPLOYMENT

Jacobson has formulated and made available to employees the policies related to staff compensation and benefits, recruitment and employment, work attendance, leave, training and development, equal opportunities, bribery prevention and code of conduct.

The Group offers competitive remuneration packages comparable to others in the same industry. It regularly reviews the internal remuneration packages at all levels and collects external remuneration information from the labour market. The Group strives to create a fair, reasonable and competitive remuneration system based on position, individual skills and competencies, as well as work performance. Share incentive schemes are also available to employees who make significant contributions to the Group. As at 31 March 2019, the Group had a total of 1,822 employees, with a turnover rate of 26.9%.

The employees have signed standard employment contracts with the Group. The remuneration packages of employees comprise of the following components: basic salary, sales-related incentives and performance-related bonus. In addition, the Group offers different types of leave including annual, sick, maternity, paternity, marriage, jury/witness duty, compassionate and no pay leave. Jacobson sets performance attributes for its employees based on their positions and departments, as well as conducts performance review regularly. The Group applies the results of such reviews to their salary adjustments, bonus and promotion justifications. Furthermore, Jacobson offers various benefit plans to employees including top-up leave entitlement, as well as medical and life insurance schemes. The Group's employees in China are unionised as per local labour laws.

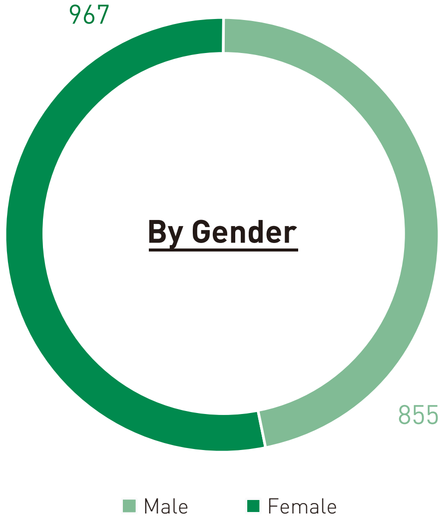
The Group is committed to creating and promoting a fair and impartial work environment of equal opportunities. It opposes any form of discrimination. The Group ensures that personal attributes not related to the job requirements shall not affect the employment opportunities and treatment of employees.

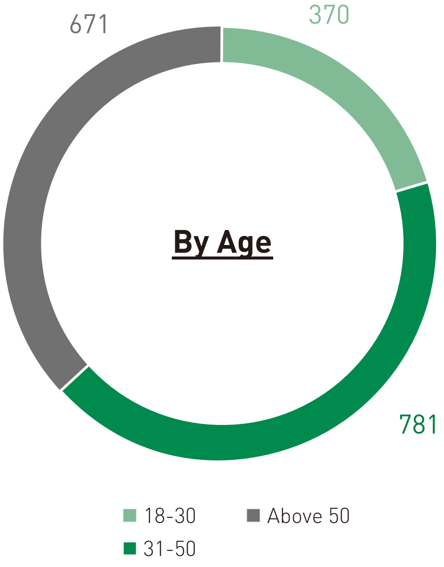
The Group strictly abides by all local legislations such as the Employment Ordinance of Hong Kong, Labour Contract Law and Labour Law of the People's Republic of China, Labour Standards Act of Taiwan. The Group only recruits employees above the minimum working age and does not tolerate any forced labour. In order to prevent child labour, the age of the candidates is verified with their identification documents during the recruitment process.

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

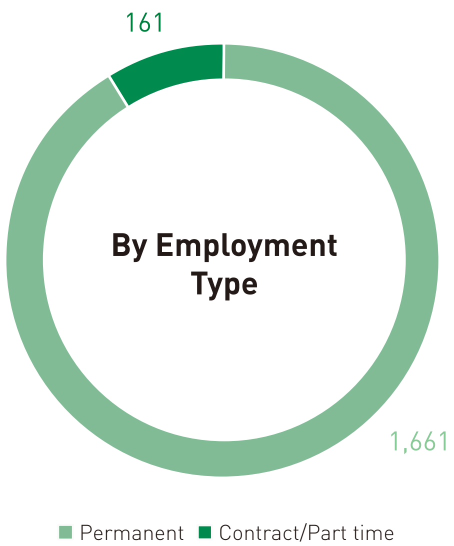


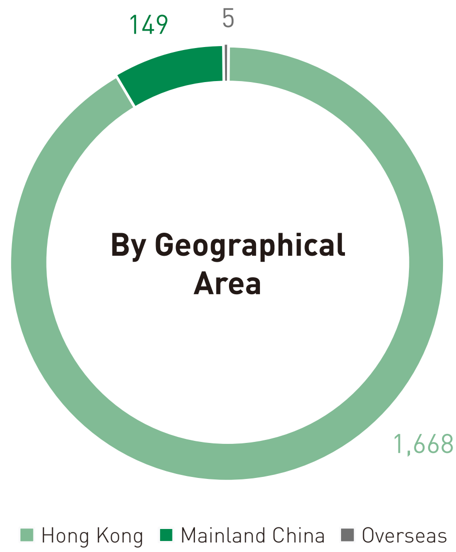


6 Employee (Continued)

6.1 EMPLOYMENT (CONTINUED)

Employee composition (Continued)





6.2 DEVELOPMENT AND TRAINING

Jacobson has incorporated a policy for staff development and training in its employee handbook. The Group considers the provision of opportunities and room for career development to staff as its responsibility. The Group nominates employees to participate in internal and external training and development programmes. In addition, employees can apply for training sponsorship to attend various courses in order to enhance their professional and management skills and knowledge. The Group also provides general training on manufacturing skills, equipment operations, GMP and PIC/S standards to its production staff.

During the reporting year, the Group's staff attended several external training sessions, including:

- Measurement Uncertainty For Analytical Laboratories;
- Current Trends, Updates to the PICS CGMPs (V14) and Other Key Industry Initiatives;
- Aseptic Processing for Sterile Products part 1 – Fundamentals of Sterile;
- Predictive Analytics using Data Science;

Through participation in external training sessions, its employees can keep up with the latest development and trends in the industry, as well as promote the competitive advantages of the Group.

In the event of any vacancy, the Group tries to promote employees from within as a primary policy, and conducts 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	FY2019	FY2018	% Change
Total training hours by employee category				
– Management	Hours	2,058	945	+118%
– Non-management	Hours	6,969	8,262	–16%

6 Employee (Continued)

6.3 HEALTH AND SAFETY

Staff health and safety is of utmost importance to the Group. The Group has a designated safety manager who closely monitors each premise to enhance the overall safety management. SOPs 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. In addition, the Group provides appropriate personal protective equipment (PPE) such as masks and gloves to employees at the manufacturing sites. The Group also regularly organises fire safety training and drills, enabling employees to be better prepared to response rapidly and appropriately in the unlikely event of fire or emergencies.

Jacobson provides work safety training to employees to reinforce their safety awareness. The safety manual is periodically reviewed and updated by the safety manager in order to promote a safer work environment and procedures.

Jacobson provides annual physical examination to production employees. Upon completion of their probationary period, employees are eligible to join the Group's medical insurance scheme, which covers in-patient, out-patient and dental benefits.

An external safety audit firm is engaged to conduct annual safety review at the Group's manufacturing sites and logistics centre in order to ensure all safety policies and procedures are strictly adhered to.

During the Reporting Period, we recorded a total of 29 work-related accidents, where most of them were minor hand or leg injuries caused by non-moving objects.

The safety manager then conducted safety training on machine operation and cleaning to production employees in all manufacturing sites to refresh their work safety alertness.

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	FY2019	FY2018	% Change
Total number of fatal cases arising from work accidents	0	0	unchange
Total number of injury cases arising from work accidents	29	21	+38%

6.4 ANTI-CORRUPTION

Jacobson strives to prevent bribery, extortion, fraud and money laundering in its business. The Group has made available to its employees a policy on bribery prevention, which states its commitment to honesty, integrity and fair play. As per the policy, paying or receiving bribes and kickbacks in commercial transactions is strictly prohibited. It also provides clear guidance on the acceptance of gifts, and requires staff to report to the management for unavoidable gift acceptance. In case of any conflict of interest during the discharge of duties, the staff concerned seeks instructions from the management 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. Furthermore, Jacobson encourages staff to report any issues of suspected corruption to human resources department. In addition, any suspected case of corruption or other criminal offence shall be reported to law enforcement authorities.

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

The Group is committed to be a good corporate citizen. We believe that the sustainability of our business hinges on the state of the community in which it serves. We are focused on taking care of vulnerable groups, promoting environmental protection awareness, organising charitable donations and supporting education.

EDUCATION SPONSORSHIP AND INTERNSHIP OPPORTUNITIES

Support for education has been a core part of our corporate social responsibility acts to ensure the sustainable development of the pharmaceutical industry with the cultivation of talented and dedicated professionals. Through sponsorships, we have been providing scholarships to outstanding pharmacy students under 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", in addition to other forms of support for their fellowships, special award programs and lectureships.

To allow students the opportunity to apply acquired knowledge to real work experiences and to acquaint themselves with the field they are interested in, the Group runs recurring internship programs for application by local and overseas university students in support of their professional and personal developments.

CARE FOR THE COMMUNITY

As a corporate social citizen and a health journey partner, we care about the wellbeing of our patients and the communities we touch. Constituting a key part of our community work, we seek to support healthcare and education initiatives, and engage in different community activities. Efforts and recognitions for our community programs in the year include:

- Partner Employer Award by the HK General Chamber of Small & Medium Business for year 2018-19 for the promotion of workplace inclusion and university graduates employment. This is respectively the 1st and 5th year for the Group's subsidiaries Europharm Laboratoires Company Limited and Pharmason Company Limited being granted with the award;

- Product sponsorships in more than 20 different elderly events or activities organised by charitable and non-governmental organisations;

- Participation in the "Pink Walk for Breast Health 2018" organised by Hong Kong Breast Cancer Foundation (HKBCF).

CARE FOR THE ENVIRONMENT

The environment is crucial for both of our social and economic developments and thus we all have a shared responsibility to conserve and protect it. We uphold sustainable development for the environment as an uncompromised value at our organisation. We have adopted a number of measures in this regard and have garnered the industry recognition on our energy conservation initiatives for our manufacturing facilities:

- EconPartner, Corporate Environment Leadership Award 2018 jointly by Bank of China and Federation of Hong Kong Industries

Moving forward, we will keep our 'care' mission rolling by serving our community with our greatest effort.

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	
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 emission is not identified as material to the Group. We will continue to observe regulatory changes to update any disclosures needed in the future.
A1.3	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)	3.3.1	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**	3.2	
	Policies on the efficient use of resources, including energy, water and other raw materials		
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	

A Appendix – HKEX ESG Reporting Guide Index (Continued)

	Aspects	Section	Remarks
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	There is no issue in sourcing water that is fit for purpose.
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	3.2.1	
A3	**The Environment and Natural Resources**	3.4	
	Policies on minimising 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			
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
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 2019.

PRINCIPAL ACTIVITY

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

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.

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

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 purchasing 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 71 to 136 of this Annual Report.

The Board recommends to declare a final dividend of HK3.0 cents per share for the FY2019 (2018: final dividend of HK2.9 cents per share), subject to the approval of shareholders at the 2019 AGM to be held on 28 August 2019 (Wednesday), which is expected to be paid on 12 September 2019 (Thursday) to shareholders whose names appear on the register of members of the Company on 4 September 2019 (Wednesday), being the record date for determining shareholders' entitlement to the proposed final dividend. Including the interim dividend of HK1.5 cents per share paid on 21 December 2018, the total dividend for the FY2019 amounts to HK4.5 cents per share (2018 total dividend: HK3.8 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 137. This summary does not form part of the audited financial statements.

SHARE CAPITAL AND SHARES ISSUED

On 14 August 2018, the Company entered into a subscription agreement (the "Subscription Agreement") with Yunnan Baiyao Holdings Company Limited ("Yunnan Baiyao"), and pursuant to which, Yunnan Baiyao agreed to subscribe for 200,000,000 newly-issued ordinary shares of the Company (the "Subscription Shares") at a subscription price of HK$2.06 per Subscription Share, whereas the Company agreed to allot and issue the Subscription Shares to Yunnan Baiyao under the general mandate granted to the directors of the Company at the annual general meeting held on 8 September 2017 (the "Subscription"). On the date of signing of the Subscription Agreement, the closing price is HK$1.810 per Share. Before the entering into of the Subscription Agreement, the authorised share capital of the Company was HK$50,000,000.00 divided into 5,000,000,000 Shares of which 1,815,625,000 Shares were in issue. The aggregate 200,000,000 Subscription Shares represented approximately 11.02% of the then existing issued share capital of the Company, and approximately 9.92% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. On 3 September 2018, the Company completed the Subscription, and as a result, the Company has 2,015,625,000 Shares in issue. The Subscription Shares are credited as fully paid and rank pari passu with all other issued Shares in all respects at the date of issue. The registered shareholders of Yunnan Baiyao are State-owned Assets Supervision and Administration Commission of the State Council of Yunnan Provincial People's Government# (雲南省人民政府國有資產監督管理委員會), New Huadu Industrial Group Co., Ltd.# (新華都實業集團股份有限公司) and Jiangsu YuWell Technology Development Co., Ltd.# (江蘇魚躍科技發展有限公司). For details, please refer to the announcements of the Company dated 14 August 2018 and 3 September 2018.

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

Net proceeds from the Subscription, after deducting all related fees and expenses from the gross proceeds of HK$412,000,000, were HK$411,658,000. The net price for each Subscription Share is HK$2.058.

Details on the use of 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 2019 consisted of share premium, distributable reserve and retained profits totaling HK$1,429,428,000. 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 122 and the Consolidated Statement of Changes in Equity on page 73 respectively.

BORROWINGS

Particulars of borrowings of the Group as at 31 March 2019 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**

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

English names for identification purpose only

DIRECTORS (Continued)

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 annual general meeting. At the 2019 AGM, Professor Lam Sing Kwong, Simon, Dr. Lam Kwing Tong, Alan and Mr. Young Chun Man, Kenneth will retire and, being eligible, offer themselves for re-election.

During the Reporting Period, there was no Director tendering resignation, refusing to stand for re-election to office, nor has the Company 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 since the Company's last published interim report and up to the date of this annual report are set out below:

(a) **Mr. Sum Kwong Yip**, **Derek**, an executive Director, with effect from 16 October 2018, ceased to act as the chairman of the award committee, established for the purpose of the Share Incentive Scheme, which was terminated on 16 October 2018. He has been appointed as the chairman of a new award committee established for the purpose of a share award scheme adopted by the Company on 16 October 2018. Mr. Sum has entered into a service contract with the Company for a renewed term of three years from 1 April 2019.

(b) **Mr. Yim Chun Leung**, an executive Director, with effect from 16 October 2018, ceased to act as a member of the award committee, established for the purpose of the Share Incentive Scheme, which was terminated on 16 October 2018. He has been appointed as a member of a new award committee established for the purpose of a share award scheme adopted by the Company on 16 October 2018. Mr. Yim was appointed as the company secretary of the Company with effect from 1 July 2019. He has entered into a service contract with the Company for a renewed term of three years from 1 April 2019 and his remuneration was revised from HK$2,400,000 per annum to HK$2,640,000 per annum.

(c) **Ms. Pun Yue Wai**, an executive Director, has entered into a service contract with the Company for a renewed term of two years from 1 February 2019. Ms. Pun was appointed as an authorised representative of the Company under the Listing Rules with effect from 1 July 2019.

DIRECTORS' BIOGRAPHIES

(A) EXECUTIVE DIRECTORS

Mr. Sum Kwong Yip, Derek ("Mr. Sum"), aged 56, is the founder of the Group. Mr. Sum is also an executive Director, chairman of the Board and the chief executive officer of the Company since 1 April 2016, and chairman of the executive committee of the Company since 22 November 2017. He is mainly responsible for the overall strategic planning and operation management of the Group. He has been appointed as the chairman of the award committee established for the purpose of a share award scheme adopted by the Company on 16 October 2018 after he ceased to act as the chairman of the award committee established for the purpose of the share incentive scheme adopted by the Company on 30 August 2016, which was terminated on 16 October 2018. 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 31 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.

DIRECTORS' BIOGRAPHIES (Continued)

(A) EXECUTIVE DIRECTORS (Continued)

Mr. Yim Chun Leung ("Mr. Yim"), aged 57, is an executive Director since 1 April 2016, a member of the nomination committee of the Company since 21 September 2016, and a member of the executive committee of the Company since 22 November 2017. He has been appointed as a member of the award committee established for the purpose of a share award scheme adopted by the Company on 16 October 2018 after he ceased to act as a member of the award committee established for the purpose of the share incentive scheme adopted by the Company on 30 August 2016, which was terminated on 16 October 2018. 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 34 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 of the Stock Exchange. 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 Concord New Energy Group Limited (formerly known as N P H International Holdings Limited, stock code: 182). From January 1994 to January 1998, Mr. Yim served as the finance director of Hong Kong International Construction Investment Management Group Co., Limited (formerly known as Tysan Holdings 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.

Ms. Pun Yue Wai ("Ms. Pun"), aged 67, 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.

(B) NON-EXECUTIVE DIRECTOR

Professor Lam Sing Kwong, Simon ("Professor Lam"), aged 60, was appointed as a non-executive Director 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, organisation 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 organisations 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 Enterprises Clean Energy Group Limited (formerly known as Jin Cai Holdings Company Limited, stock code: 1250). From 8 December 2014 to 22 April 2016, he was an independent non-executive director of Huarong Investment Stock Corporation Limited (formerly known as Chun Sing Engineering Holdings Limited, stock code: 2277) and from 31 July 2014 to 24 June 2016, he was an independent non-executive director of Greatwalle Inc. (formerly known as King Force Group Holdings Limited, stock code: 8315), the issued shares of which are listed on the Main Board and the GEM of the Stock Exchange respectively. Professor Lam is the brother-in-law of Mr. Yim Chun Leung, an executive Director.

DIRECTORS' BIOGRAPHIES (Continued)

(C) INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lam Kwing Tong, Alan ("Dr. Lam"), aged 56, is an independent non-executive Director 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 55, is an independent non-executive Director 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 China Tonghai International Financial Limited (formerly known as Quam Limited and China Oceanwide International Financial Limited, stock code: 952), the issued shares of which are listed on the Main Board of the Stock Exchange, 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 organisation, 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.

Professor Wong Chi Kei, Ian ("Professor Wong"), aged 52, is an independent non-executive Director 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 The 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 were 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 or the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the FY2019 or at any time during the FY2019.

INTERESTS IN COMPETING BUSINESS

None of the Directors is interested in any business apart from the Group's 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 a renewed term of three years from 1 April 2019, except Ms. Pun Yue Wai, whose renewed term is for two years from 1 February 2019, all of which may be terminated by either party giving to the other party not less than 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 may be terminated earlier by either party serving on the other party not less than one month's notice in writing.

None of the Directors proposed for re-election at the 2019 AGM is a party to any service contract with the Company which is not determinable by the Company within one year without payment of compensation 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, which were not a contract of service with any Director or any person engaged in the full-time employment of our Company, 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, contractor, 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 2019, the outstanding share options under the Share Option Scheme available for issue of ordinary shares was 150,520,000 shares representing approximately 7.47% 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 for such period (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.

EQUITY-LINKED AGREEMENTS (Continued)

SHARE OPTION SCHEME (Continued)

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

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

Since the effective date of the Share Option Scheme and up to 31 March 2019, 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 12,520,000 share options were lapsed or forfeited 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 2019 were as follows:

	Number of share options								
	Outstanding as at 1 April 2018	**Granted during the year**	**Exercised during the year**	**Lapsed or forfeited during the year**	**Cancelled during the year**	**Outstanding as at 31 March 2019**	**Date of grant**	**Exercise price per ordinary share**	**Exercisable period**
Directors:									
Mr. Yim Chun Leung	13,500,000	–	–	4,500,000	–	9,000,000	30 June 2017	HK$2.06	from 1 October 2018 up to 30 September 2020 in two tranches
Ms. Pun Yue Wai	4,500,000	–	–	1,500,000	–	3,000,000	30 June 2017	HK$2.06	from 1 October 2018 up to 30 September 2020 in two tranches
sub-total	18,000,000	–	–	6,000,000	–	12,000,000			
All other employees:	17,600,000	–	–	6,120,000	–	11,480,000	30 June 2017	HK$2.06	from 1 October 2018 up to 30 September 2020 in two 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	18,600,000	–	–	6,120,000	–	12,480,000			
Grant Total	36,600,000	–	–	12,120,000	–	24,480,000			

The share options granted on 30 June 2017 are valid and exercisable within a validity period from 1 October 2018 and 2019 up to 30 September 2019 and 2020 respectively in two 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 and does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. On 16 October 2018, subject to the restriction terms (where applicable), grantees (including employees of our Group, who are not director(s), chief executive(s) or substantial shareholder(s) of the Group nor an associate of any of them, directors of certain subsidiaries of the Company and all executive Directors) were granted share awards entitling the grantees to acquire an aggregate of 7,231,000 ordinary shares of the Company on the vesting date on 23 January 2019. 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 granted on 16 October 2018
Mr. Sum Kwong Yip, Derek [Note]	2,000,000
Mr. Yim Chun Leung	1,000,000
Ms. Pun Yue Wai	750,000
Certain directors of subsidiaries of the Company	1,976,000
Employees of our Group	1,505,000
	7,231,000

Note: subject to 1-year lockup period from the vesting date

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 27(A) and 27(B) to the consolidated financial statements respectively.

On 16 October 2018, the Board approved the termination of the Share Incentive Scheme after the vesting of all the available share awards to the relevant grantees eligible under the Share Incentive Scheme. Such termination shall not affect any subsisting rights of any grantee under the Share Incentive Scheme. As such, the award committee, which was established for the purpose of the Share Incentive Scheme, would be dissolved upon the termination of the Share Incentive Scheme.

SHARE AWARD SCHEME

The share award scheme of the Company was adopted by the Board on 16 October 2018. The purpose of the Share Award Scheme is to recognise and reward the contribution of certain eligible person(s) for the growth and development of the Group and to provide them with incentives in order to retain them for the continual operation, development and long-term growth of the Group and to attract suitable personnel for further development of the Group.

The eligible person(s) for the Share Award Scheme includes any individual who is an employee (whether full time or part time), director, officer, consultant or advisor of any member of the Group or any entity in which any member of the Group holds any equity interest who is considered by the Board, in its sole discretion, to have contributed to or will contribute to the Group, and is selected by the Board for achieving the purposes of the Share Award Scheme.

On 16 October 2018, a new award committee ("Award Committee") was established for the purpose of the Share Award Scheme, and delegated with the power and authority by the Board to administer the Share Award Scheme. An independent third party has been appointed as a trustee (the "Trustee") under the Share Award Scheme.

The Share Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules, and is a discretionary scheme of the Company.

Unless otherwise terminated or altered, the Share Award Scheme shall be valid and effective for a period of ten years commencing from 16 October 2018. Pursuant to the Share Award Scheme, the Trustee will purchase existing shares of the Company from the market or subscribe for new ordinary shares from the Company out of the money contributed by the Group, and such shares will be held on trust for selected participants of the scheme until such awarded shares are vested with the relevant selected participants. At no point in time shall the Trustee be holding more than 3% of the total number of shares of the Company in issue under the Share Award Scheme. In addition, unless approved by the Board, the Award Committee shall not grant any awarded shares to any selected participant if the granting of such awarded shares would result in the total number of shares vested or to be vested in the relevant selected participant during any 12 month period exceeding 0.5% of the total issued shares of the Company (save and except that any grant of Awarded Shares to an independent non-executive Director should not result in the total number of shares vested or to be vested in that person (under the Share Award Scheme or otherwise) during any 12 month period exceeding 0.1% of the total issued shares of the Company). Details of the rules of the Share Award Scheme were set out in the announcement of the Company dated 16 October 2018.

Up to 31 March 2019, the Trustee has yet purchased any existing shares of the Company from the market. During the Reporting Period, no share was issued under the Share Award Scheme, and no share was granted to any selected participant under the Share Award Scheme.

EQUITY-LINKED AGREEMENTS (Continued)

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the Share Option Scheme, the Share Incentive Scheme and the Share Award 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 the Listing Rules, the Company discloses the following information:

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

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

As at 31 March 2019, the aggregate principal amount under the above convertible notes was HK$500 million.

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

On 23 August 2018, an indirect wholly-owned subsidiary of our Company, namely Silver Sampan Limited ("Silver Sampan"), as the purchaser entered into the agreement ("Dickson's Agreement") with Dickson Concepts Limited ("Dickson Concepts") as the vendor and our Company as Silver Sampan's guarantor, pursuant to which Silver Sampan agreed to acquire the 2 issued shares ("Dickson's Sale Shares") of Melborn Property Limited (formerly known as Dickson Warehousing Limited) ("Melborn Property"), representing the entire issued share capital of Melborn Property, and take the assignment of the entire amount of the shareholder's loan, other sums, indebtedness and interest (if any) due, owing to or payable to Dickson Concepts by Melborn Property at the completion of the Dickson's Agreement ("Dickson's Completion") which is interest free and repayable on demand ("Dickson's Sale Loan"), and Dickson Concepts agreed to sell the Dickson's Sale Shares and assign the entire amount of the Dickson's Sale Loan, at HK$250,000,000, subject to adjustment pursuant to the Dickson's Agreement. The leaseback arrangement in respect of Godown A and Godown B on 9th Floor and two car parking spaces ("Leaseback Portion") of the premises situate at Godown A, Godown B and Godown C on 9th Floor and car parking spaces L4, P5, P6, P7 and P8 on 2nd Floor of Ever Gain Centre, No. 28 On Muk Street, Shatin, New Territories, Hong Kong ("Leaseback Arrangement") forms part of the transactions contemplated under the Dickson's Agreement. Pursuant to the Dickson's Agreement, after Dickson's Completion, Silver Sampan shall procure Melborn Property to lease back the Leaseback Portion to Honca Limited (a member of the Dickson Concepts (International) Limited, its subsidiaries and associates) subject to the terms and conditions of the tenancy agreement and the licence agreement to be executed by Melborn Property and Honca Limited upon Dickson's Completion in respect of the Leaseback Portion. The Dickson's Completion took place on 14 November 2018 and upon Dickson's Completion, Melborn Property has become an indirect wholly-owned subsidiary of our Company. For details, please refer to the announcements of the Company dated 23 August 2018 and 14 November 2018.

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 FY2019. The independent non-executive Directors have conducted a review for the FY2019 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 2019, 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]	Beneficial owner Interests in controlled corporation Settlor of trusts Beneficiary of trusts	1,288,724,000	63.94%	Long position
Mr. Yim Chun Leung	Beneficial owner	36,450,000	1.81%	Long position
Ms. Pun Yue Wai	Beneficial owner	5,210,000	0.25%	Long position
Dr. Lam Kwing Tong, Alan	Interests of spouse	440,000	0.02%	Long position

Notes:

(1) Mr. Sum is the sole shareholder of The Jacobson Pharma (PTC) Limited. By virtue of the SFO, Mr. Sum is deemed to be interested in the 4,784,000 shares held by The Jacobson Pharma (PTC) Limited.

(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 2019, 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	9,000,000	0.45%
Ms. Pun Yue Wai	Beneficial owner	3,000,000	0.15%

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 2019, 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 2019, 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	273,434,000	13.56%	Long position
Kingshill[2]	Beneficial owner Interest held jointly with another person	1,007,734,000	50.00%	Long position
Longjin[2]	Beneficial owner Interest held jointly with another person	1,007,734,000	50.00%	Long position
Trust Co[3]	Trust holding company	1,007,734,000	50.00%	Long position
UBS Trustees (B.V.I.) Limited[3]	Trustee	1,007,734,000	50.00%	Long position
Mr. Lau[2]	Interest in controlled corporation	1,007,734,000	50.00%	Long position
Mr. Sum[1][3]	Beneficial owner Interest in controlled corporation Settlor of trusts Beneficiary of trusts	1,288,724,000	63.94%	Long position
Yunnan Baiyao[4] [5] [6]	Beneficial owner	200,000,000	9.92%	Long position
State-owned Assets Supervision and Administration Commission of Yunnan Provincial People's Government* (雲南省人民政府國有資產監督管理委員會)[5]	Interest in controlled corporation	200,000,000	9.92%	Long position
New Huadu Industrial Group Co., Ltd.* (新華都實業集團股份有限公司)[6]	Interest in controlled corporation	200,000,000	9.92%	Long position
Mr. Chen Fa Shu[6]	Interest in controlled corporation	200,000,000	9.92%	Long position

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

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

Notes:

(1) Mr. Sum is the sole shareholder of The Jacobson Pharma (PTC) Limited and Queenshill Development Limited ("Queenshill"). By virtue of the SFO, Mr. Sum is deemed to be interested in the 4,784,000 shares held by The Jacobson Pharma (PTC) Limited.

(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.

(4) Pursuant to the subscription agreement dated 14 August 2018 entered into by Yunnan Baiyao and the Company in relation to the subscription of 200,000,000 new ordinary shares at the subscription price of HK$2.06 per share. 200,000,000 new ordinary shares were issued to Yunnan Baiyao on 3 September 2018. For details of the subscription and issuance of 200,000,000 new ordinary shares, please refer to the announcements of the Company dated 14 August 2018 and 3 September 2018 respectively.

(5) State-owned Assets Supervision and Administration Commission of Yunnan Provincial People's Government* (雲南省人民政府國有資產監督管理委員會) holds 45% of the voting shares of Yunnan Baiyao and therefore it is deemed to be interested in Yunnan Baiyao and the 200,000,000 shares held by Yunnan Baiyao.

(6) Mr. Chen Fa Shu holds 76.87% of the voting shares in New Huadu Industrial Group Co., Ltd.* (新華都實業集團股份有限公司), which in turn holds 45% of the voting shares in Yunnan Baiyao and therefore Mr. Chen Fa Shu and New Huadu Industrial Group Co., Ltd.* (新華都實業集團股份有限公司) are deemed to be interested in Yunnan Baiyao and the 200,000,000 shares held by Yunnan Baiyao.

(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 2019, 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)	5.56%
Dignari Capital Partners GP Limited	Interest in controlled corporation	112,000,000 (Note)	5.56%
Ms. Tan Mei Zie Grace	Interest in controlled corporation	112,000,000 (Note)	5.56%

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 2019, 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.

* *For purpose of identification only.*

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 31 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 30.0% (2018: 29.8%) of the total revenue. The largest customer accounted for 23.9% (FY2018: 24.0%) 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$22,000 (FY2018: HK$40,000) 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 2019

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 71 to 136, which comprise the consolidated statement of financial position as at 31 March 2019, 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 2019 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.

Assessing potential impairment of intangible assets

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

The Key Audit Matter	How the matter was addressed in our audit
The carrying value of the Group's intangible assets as at 31 March 2019 totalled HK$1,073.5 million, which included goodwill of HK$390.8 million and trademarks with indefinite useful life of HK$263.5 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 forecasts. 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.	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 Lee Ka Nang.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
25 June 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

		Year ended 31 March	
	Note	**2019** **HK$'000**	2018 HK$'000
Revenue	2	**1,704,641**	1,548,684
Cost of sales		**(1,014,753)**	(931,022)
Gross profit		**689,888**	617,662
Other net income	3	**37,489**	19,506
Selling and distribution expenses		**(177,701)**	(167,075)
Administrative and other operating expenses		**(173,109)**	(172,865)
Profit from operations		**376,567**	297,228
Finance costs	4(A)	**(66,198)**	(46,005)
Share of profits less losses of associates		**4,719**	–
Profit before taxation	4	**315,088**	251,223
Income tax	5(A)	**(56,410)**	(46,323)
Profit for the year		**258,678**	204,900
Other comprehensive income for the year			
Item that will not be reclassified to profit or loss, net of nil tax:			
Revaluation of financial assets at fair value through other comprehensive income		**96,201**	–
Item that may be reclassified to profit or loss, net of nil tax:			
Exchange differences on translation of financial statements of operations outside Hong Kong		**(3,676)**	3,645
Other comprehensive income		**92,525**	3,645
Total comprehensive income for the year		**351,203**	208,545
Profit attributable to:			
Shareholders of the Company		**250,561**	202,270
Non-controlling interests		**8,117**	2,630
Total profit for the year		**258,678**	204,900
Total comprehensive income attributable to:			
Shareholders of the Company		**343,086**	205,915
Non-controlling interests		**8,117**	2,630
Total comprehensive income for the year		**351,203**	208,545
		HK cents	HK cents
Earnings per share attributable to shareholders of the Company:	8		
– Basic and diluted		**12.98**	11.14

The notes on pages 75 to 136 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 2019 (Expressed in Hong Kong dollars)

		As at 31 March	
		2019	2018
	Note	**HK$'000**	HK$'000
Non-current assets			
Investment properties	10	**356,800**	91,000
Other property, plant and equipment	10	**1,058,473**	982,270
Leasehold land	11	**45,446**	48,041
Intangible assets	12	**1,073,487**	1,087,140
Interests in associates	14	**148,752**	12,603
Other non-current assets	15	**72,333**	26,510
Other financial assets	18	**255,320**	117,718
Deferred tax assets	22	**5,976**	4,191
		3,016,587	2,369,473
Current assets			
Inventories	16	**333,831**	316,323
Trade and other receivables	17	**277,291**	254,797
Current tax recoverable		**3,043**	13,829
Cash and cash equivalents	19	**629,842**	656,733
		1,244,007	1,241,682
Current liabilities			
Trade and other payables	20	**116,932**	105,553
Bank loans	21	**458,399**	903,872
Obligations under finance leases	21	**184**	184
Convertible notes	21	**466,960**	447,097
Current tax payable		**11,896**	4,657
		1,054,371	1,461,363
Net current assets/(liabilities)		**189,636**	(219,681)
Total assets less current liabilities		**3,206,223**	2,149,792
Non-current liabilities			
Bank loans	21	**371,247**	–
Obligations under finance leases	21	**476**	660
Deferred tax liabilities	22	**147,362**	141,157
		519,085	141,817
NET ASSETS		**2,687,138**	2,007,975
CAPITAL AND RESERVES			
Share capital	23	**20,156**	18,156
Reserves	25	**2,627,012**	1,957,606
Total equity attributable to shareholders of the Company		**2,647,168**	1,975,762
Non-controlling interests		**39,970**	32,213
TOTAL EQUITY		**2,687,138**	2,007,975

Approved and authorised for issue by the board of directors on 25 June 2019.

Mr. Sum Kwong Yip, Derek
Director

Mr. Yim Chun Leung
Director

The notes on pages 75 to 136 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Note	Share capital (Note 23)	Share premium (Note 25(A))	Capital reserve (Note 25(B))	Exchange reserve (Note 25(C))	Fair value reserve (non-recycling)	Retained earnings	Total	Non-controlling interests	Total equity
		Attributable to shareholders of the Company								
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
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(B)	–	–	–	–	–	(25,419)	(25,419)	–	(25,419)
Dividends declared in respect of the current year	9(A)	–	–	–	–	–	(16,341)	(16,341)	–	(16,341)
Dividends paid by subsidiaries attributable to non-controlling interests		–	–	–	–	–	–	–	(360)	(360)
Equity-settled share-based transactions	27	–	–	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
At 1 April 2018		**18,156**	**717,058**	**152,768**	**7,587**	**–**	**1,080,193**	**1,975,762**	**32,213**	**2,007,975**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**250,561**	**250,561**	**8,117**	**258,678**
Other comprehensive income		**–**	**–**	**–**	**(3,676)**	**96,201**	**–**	**92,525**	**–**	**92,525**
Total comprehensive income for the year		**–**	**–**	**–**	**(3,676)**	**96,201**	**250,561**	**343,086**	**8,117**	**351,203**
Dividends approved in respect of the previous year	9(B)	**–**	**–**	**–**	**–**	**–**	**(58,453)**	**(58,453)**	**–**	**(58,453)**
Dividends declared in respect of the current year	9(A)	**–**	**–**	**–**	**–**	**–**	**(30,234)**	**(30,234)**	**–**	**(30,234)**
Dividends paid by subsidiaries attributable to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(360)**	**(360)**
Equity-settled share-based transactions	27	**–**	**–**	**1,729**	**–**	**–**	**3,620**	**5,349**	**–**	**5,349**
Issuance of new shares	23	**2,000**	**409,658**	**–**	**–**	**–**	**–**	**411,658**	**–**	**411,658**
At 31 March 2019		**20,156**	**1,126,716**	**154,497**	**3,911**	**96,201**	**1,245,687**	**2,647,168**	**39,970**	**2,687,138**

The notes on pages 75 to 136 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Note	Year ended 31 March 2019 HK$'000	2018 HK$'000
Operating activities			
Cash generated from operations	19(B)	**431,893**	299,002
Income tax paid		**(36,185)**	(56,008)
Net cash generated from operating activities		**395,708**	242,994
Investing activities			
Payment for purchase of property, plant and equipment and intangible assets and other assets		**(44,074)**	(86,853)
Payment for purchase of investment properties		**–**	(78,356)
Proceeds from disposals of property, plant and equipment and leasehold land		**7,910**	2,178
Net cash outflow from acquisitions of subsidiaries under business combinations	26	**–**	(38,992)
Net cash outflow from acquisitions of subsidiaries under asset acquisitions	26	**(378,370)**	–
Advance to a director of a non-wholly owned subsidiary for the purchase of land in Cambodia		**(44,165)**	–
Interest received		**4,745**	3,947
Payment for other financial assets		**(41,401)**	(117,718)
Payment for acquisition of associates		**(143,846)**	–
Decrease/(increase) in amounts due from associates		**12,416**	(12,603)
Net cash used in investing activities		**(626,785)**	(328,397)
Financing activities			
Capital element of finance lease rentals paid	19(C)	**(184)**	(599)
Proceeds from bank loans	19(C)	**709,016**	657,924
Repayment of bank loans	19(C)	**(783,242)**	(691,538)
Borrowing costs paid	19(C)	**(42,004)**	(32,475)
Gross proceeds from shares issued	23	**412,000**	–
Payment for share issuance expenses	23	**(342)**	–
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		**(88,687)**	(41,760)
Dividends paid to non-controlling interests		**(360)**	(360)
Net cash generated from financing activities		**206,197**	381,544
Net (decrease)/increase in cash and cash equivalents		**(24,880)**	296,141
Cash and cash equivalents at the beginning of the year	19(A)	**656,733**	359,685
Effect of foreign exchange rate changes		**(2,011)**	907
Cash and cash equivalents at the end of the year	19(A)	**629,842**	656,733

The notes on pages 75 to 136 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 2019 comprise the Company and its subsidiaries and the Group's interests in associates.

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

(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 33.

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));
- contingent consideration receivable (see note 1(H));
- investments measured as financial assets at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL") (see note 1(J)).

(E) CHANGES IN ACCOUNTING POLICIES

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

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

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

(i) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 April 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 April 2018. Therefore, comparative information continues to be reported under HKAS 39.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(a) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at FVOCI and at FVPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

1 Significant Accounting Policies (Continued)

(E) CHANGES IN ACCOUNTING POLICIES (Continued)

(i) HKFRS 9, *Financial instruments* (Continued)

(a) Classification of financial assets and financial liabilities (Continued)

Upon the initial application of HKFRS 9, available-for-sale equity securities of HK$117,718,000 at 31 March 2018, which were stated at cost less impairment losses and included in other financial assets in the statement of financial position, were reclassified as financial assets at FVOCI at 1 April 2018. Management determined that the fair value of the equity securities approximated the carrying value at 1 April 2018 and accordingly, there was no adjustment to the Group's opening equity as at 1 April 2018.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

(b) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit losses ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables). Financial assets measured at fair value are not subject to the ECL assessment.

For further details on the Group's accounting policy for accounting for credit losses, see note 1(O).

There has been no significant impact on the Group's financial position and results of operations as a result of this change in accounting policy and accordingly, the Group's opening balances as at 1 April 2018 have not been adjusted.

(c) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Accordingly, the information presented for the year ended 31 March 2018 continues to be reported under HKAS 39 and thus may not be comparable with the current period.
- The following assessments have been made on the basis of the facts and circumstances that existed at 1 April 2018 (the date of initial application of HKFRS 9 by the Group):
  - the determination of the business model within which a financial asset is held; and
  - the designation of investments in equity instruments not held for trading to be classified as at FVOCI.

1 Significant Accounting Policies (Continued)

(E) CHANGES IN ACCOUNTING POLICIES (Continued)

(ii) HKFRS 15, ***Revenue from contracts with customers***

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 April 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(a) Timing of revenue recognition

Previously, revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods.

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

There has been no impact on the Group as a result of this change in policy.

(c) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods in the contract, then the entitlement to consideration is classified as a contract asset.

Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Upon the initial application of HKFRS 15, the receipts in advance from customers of HK$2,128,000 at 31 March 2018 is recognised as a contract liability (see note 20) under "Trade and other payables" in the statement of financial position at 1 April 2018.

(iii) HK(IFRIC) 22, ***Foreign currency transactions and advance consideration***

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

1 Significant Accounting Policies (Continued)

(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(S) or 1(T) 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(O)(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 VENTURES

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 (O)). 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 profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in 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(O), 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 10(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(O)(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(O)(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 policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 28(E). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 April 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(Y)(iii)).

- FVOCI - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

- FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(Y)(iv).

1 Significant Accounting Policies (Continued)

(J) OTHER INVESTMENTS IN EQUITY SECURITIES (Continued)

(B) Policy applicable prior to 1 April 2018

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 was 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 did not have a quoted price in an active market for an identical instrument and whose fair value could not otherwise be reliably measured were recognised in the statement of financial position at cost less impairment losses (see note 1(O)). Dividend income from equity securities was recognised in profit or loss in accordance with the policies set out in note 1(Y)(iv).

When the investments were derecognised or impaired (see note 1(O)), the cumulative gain or loss recognised in equity was reclassified to profit or loss. Investments were recognised/derecognised on the date the Group committed to purchase/sell the investments or they expired.

(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.

(L) PROPERTY, PLANT AND EQUIPMENT

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

1 Significant Accounting Policies (Continued)

(M) 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(O)(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.

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(O)(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(AA)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(O)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

(N) 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(O)(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.

1 Significant Accounting Policies (Continued)

(N) LEASED ASSETS (Continued)

(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.

(O) CREDIT LOSSES AND IMPAIRMENT OF ASSETS

(i) Credit losses from financial instruments

(a) Policy applicable from 1 April 2018

The Group recognises a loss allowance for ECLs financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

1 Significant Accounting Policies (Continued)

(O) CREDIT LOSSES AND IMPAIRMENT OF ASSETS (Continued)

(i) Credit losses from financial instruments (Continued)

(a) Policy applicable from 1 April 2018 (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making the assessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 1(Y)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

1 Significant Accounting Policies (Continued)

(O) CREDIT LOSSES AND IMPAIRMENT OF ASSETS (Continued)

(i) Credit losses from financial instruments (Continued)

(a) Policy applicable from 1 April 2018 (Continued)

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(b) Policy applicable prior to 1 April 2018

Prior to 1 April 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables and available-for-sale investments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

- significant financial difficulties 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 existed, an impairment loss was determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss was 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 was material. Impairment losses for equity securities carried at cost were not reversed.
- For trade and other receivables and other financial assets carried at amortised cost, impairment loss was 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, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were 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 decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade receivable or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

1 Significant Accounting Policies (Continued)

(O) CREDIT LOSSES AND IMPAIRMENT OF ASSETS (Continued)

(ii) Impairment of other non-current 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 in 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;

– interests in associates; and

– investments 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 costs 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 favourable 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(O)(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)

(P) 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.

(Q) TRADE AND OTHER RECEIVABLES

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(O)(i)).

(R) 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.

(S) 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.

(T) TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

(i) 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.

(ii) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 1(Y)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(Q)).

1 Significant Accounting Policies (Continued)

(U) 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. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 1(O)(i).

(V) 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).

(W) 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)

(W) 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)

(X) 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.

(Y) REVENUE AND OTHER INCOME

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised in profit or loss when the customer takes possession of and accepts the goods. In the comparative period, revenue from sales of goods 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 as it accrues under the effective interest method using the rate. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(O)(i)).

(iv) Dividends

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

1 Significant Accounting Policies (Continued)

(Z) 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. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. 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.

(AA) 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.

1 Significant Accounting Policies (Continued)

(BB) 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.

(CC) 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. All the revenue for the year ended 31 March 2019 is recognised in accordance with HKFRS 15. The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts and does not disclose information about remaining performance obligations that have original expected duration of one year or less.

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 share of profits less losses of associates and 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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**1,253,022**	1,178,795	**225,103**	192,238	**226,516**	177,651	**1,704,641**	1,548,684
Inter-segment revenue	**3,404**	3,632	**2,154**	3,850	**–**	–	**5,558**	7,482
Reportable segment revenue	**1,256,426**	1,182,427	**227,257**	196,088	**226,516**	177,651	**1,710,199**	1,556,166
Reportable segment profit (adjusted EBITDA)	**376,710**	330,237	**81,865**	61,965	**5,812**	4,801	**464,387**	397,003

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	
	2019	2018
	HK$'000	HK$'000
Generic drugs		
Public Sector	**407,835**	371,996
Private Sector	**845,187**	806,799
Generic drugs subtotal	**1,253,022**	1,178,795
Proprietary medicines	**225,103**	192,238
Wholesale and retail	**226,516**	177,651
Total	**1,704,641**	1,548,684

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

	Year ended 31 March	
	2019	2018
	HK$'000	HK$'000
Revenue		
Reportable segment revenue	**1,710,199**	1,556,166
Elimination of inter-segment revenue	**(5,558)**	(7,482)
Consolidated revenue	**1,704,641**	1,548,684
Profit		
Reportable segment profit	**464,387**	397,003
Elimination of inter-segment profit	**(376)**	(4,650)
Reportable segment profit derived from Group's external customers	**464,011**	392,353
Interest income from bank deposits	**4,745**	3,947
Depreciation and amortisation	**(115,916)**	(112,434)
Finance costs	**(66,198)**	(46,005)
Fair value gain on investment properties	**23,374**	12,644
Fair value gain on contingent consideration receivable	**353**	718
Share of profits less losses of associates	**4,719**	–
Consolidated profit before taxation	**315,088**	251,223

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	
	2019	2018
	HK$'000	HK$'000
Revenue from external customers		
Hong Kong (place of domicile)	**1,598,512**	1,460,205
Mainland China	**35,927**	30,944
Macau	**39,853**	39,362
Singapore	**9,932**	6,924
Others	**20,417**	11,249
	1,704,641	1,548,684

The following table sets out information about the geographical location of the Group's property, plant and equipment, leasehold land, investment properties, intangible assets, prepayments for purchase of non-current assets and interests in associates ("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 interests in associates.

	As at 31 March	
	2019	2018
	HK$'000	HK$'000
Specified non-current assets		
Hong Kong (place of domicile)	**2,657,643**	2,202,348
Mainland China	**44,936**	29,676
Macau	**86**	122
Taiwan	**6,447**	–
Cambodia	**46,179**	14,617
	2,755,291	2,246,763

(iv) Information about major customers

For the year ended 31 March 2019, 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$407,835,000 (2018: HK$371,996,000).

3 Other Net Income

	Year ended 31 March	
	2019	2018
	HK$'000	HK$'000
Commission income	**1,366**	948
Interest income from bank deposits	**4,745**	3,947
Net foreign exchange (loss)/gain	**(1,647)**	492
Net gain on disposals of property, plant and equipment and leasehold land	**5,049**	30
Fair value gain on investment properties	**23,374**	12,644
Fair value gain on contingent consideration receivable	**353**	718
Rental income	**2,309**	171
Others	**1,940**	556
	37,489	19,506

4 Profit Before Taxation

Profit before taxation is arrived at after charging:

(A) FINANCE COSTS

	Year ended 31 March	
	2019	2018
	HK$'000	HK$'000
Interest on bank loans and other borrowings (note 19(C))	**66,151**	45,964
Finance charges on obligations under finance leases (note 19(C))	**47**	41
	66,198	46,005

(B) STAFF COSTS

	Year ended 31 March	
	2019	2018
	HK$'000	HK$'000
Salaries, wages and other benefits	**399,490**	390,859
Contributions to defined contribution retirement schemes	**18,175**	16,497
Equity-settled share-based payment expenses (note 27)	**5,349**	9,734
	423,014	417,090

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	
	2019	2018
	HK$'000	HK$'000
Amortisation		
– leasehold land (note 11)	**1,645**	1,644
– intangible assets (note 12)	**27,529**	25,718
Depreciation (note 10)	**86,742**	85,072
Operating lease charges in respect of properties	**55,231**	55,755
Auditors' remuneration		
– audit services	**5,669**	6,529
– other services	**2,756**	2,685
Research and development costs (other than amortisation of capitalised development costs)	**2,537**	2,296
Cost of inventories# (note 16(B))	**1,014,753**	931,022

Cost of inventories includes HK$365,693,000 for the year ended 31 March 2019 (2018: HK$354,579,000), 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	
	2019	2018
	HK$'000	HK$'000
Current tax		
Provision for the year	**54,391**	44,470
(Over)/under-provision in respect of prior years	**(158)**	1,171
	54,233	45,641
Deferred tax		
Origination and reversal of temporary differences (note 22(A))	**2,177**	682
	56,410	46,323

5 Income Tax (Continued)

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

	Year ended 31 March	
	2019	2018
	HK$'000	HK$'000
Profit before taxation	**315,088**	251,223
Notional tax on profit before taxation calculated at the rate applicable to profits in the tax jurisdiction concerned	**51,410**	41,793
Effect of non-deductible expenses	**11,279**	6,929
Effect of non-taxable income	**(7,268)**	(2,928)
Effect of tax concessions obtained	**(480)**	(236)
Effect of temporary differences not recognised	**1,627**	(406)
(Over)/under-provision in prior years	**(158)**	1,171
Actual tax expense	**56,410**	46,323

Notes:

(i) The provision for Hong Kong Profits Tax for the year is calculated at 16.5% (2018: 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 2018-19 subject to a maximum reduction of HK$20,000 for each business (2018: a maximum reduction of HK$30,000 was granted for the year of assessment 2017-18 and was taken into account in calculating the provision for 2018).

(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 2019						
	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	3,534	-	217	4,951	-	4,951
Mr. Yim Chun Leung	2,397	-	200	130	2,727	2,018	4,745
Ms. Pun Yue Wai	1,154	-	-	-	1,154	673	1,827
Non-executive director							
Professor Lam Sing Kwong, Simon	211	-	-	-	211	-	211
Independent non-executive directors							
Dr. Lam Kwing Tong, Alan	211	-	-	-	211	-	211
Mr. Young Chun Man, Kenneth	211	-	-	-	211	-	211
Professor Wong Chi Kei, Ian	211	-	-	-	211	-	211
	5,595	3,534	200	347	9,676	2,691	12,367

6 Directors' Emoluments (Continued)

	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

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(V)(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 27(B).

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	–
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 2019 (2018: nil).

7 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, 2 are directors for the year ended 31 March 2019 (2018: 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	
	2019	2018
	HK$'000	HK$'000
Salaries and other emoluments	**6,820**	6,305
Discretionary bonuses	**1,150**	124
Retirement scheme contributions	**54**	54
	8,024	6,483

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

	Year ended 31 March	
	2019	2018
	HK$'000	HK$'000
HK$1,500,001 – HK$2,000,000	**–**	1
HK$2,000,001 – HK$2,500,000	**1**	1
HK$2,500,001 – HK$3,000,000	**1**	1
HK$3,000,001 – HK$3,500,000	**1**	–

8 Earnings Per Share

(A) BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of HK$250,561,000 for the year ended 31 March 2019 (2018: HK$202,270,000), and the weighted average ordinary shares in issue calculated as follows:

Weighted average number of ordinary shares:

	Year ended 31 March	
	2019	2018
	'000	'000
Shares of the Company issued at the beginning of the year	**1,815,625**	1,815,625
Effect of shares issued (note 23)	**115,068**	–
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**1,930,693**	1,815,625

8 Earnings Per Share (Continued)

(B) DILUTED EARNINGS PER SHARE

Diluted earnings per share equals to basic earnings per share for the years ended 31 March 2019 and 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	
	2019	2018
	HK$'000	HK$'000
Interim dividend declared and paid of HK1.5 cents per share (2018: HK0.9 cent per share)	**30,234**	16,341
Final dividend proposed after the end of the Reporting Period of HK3.0 cents per share (2018: HK2.9 cents per share)	**60,469**	52,653
	90,703	68,994

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	
	2019	2018
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK2.9 cents per share (2018: HK1.4 cents per share)	**58,453**	25,419

10 Investment Properties and Other Property, Plant and Equipment

(A) RECONCILIATION OF CARRYING AMOUNT

	Land and 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

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

(A) RECONCILIATION OF CARRYING AMOUNT (Continued)

	Land and 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 2018	319,666	434,826	493,948	10,549	34,685	1,293,674	91,000	1,384,674
Additions	-	16,260	10,504	466	1,575	28,805	-	28,805
Acquisitions of subsidiaries	75,600	-	-	-	-	75,600	304,426	380,026
Transfer from investment properties to buildings	62,000	-	-	-	-	62,000	(62,000)	-
Disposals	(725)	(5,506)	(4,240)	(3,075)	(8,171)	(21,717)	-	(21,717)
Fair value adjustment	-	-	-	-	-	-	23,374	23,374
Exchange difference	(1,256)	(3,603)	(113)	(43)	(672)	(5,687)	-	(5,687)
At 31 March 2019	455,285	441,977	500,099	7,897	27,417	1,432,675	356,800	1,789,475
Accumulated depreciation:								
At 1 April 2018	42,812	147,178	111,504	5,279	4,631	311,404	-	311,404
Charge for the year	14,133	37,322	29,122	1,709	4,456	86,742	-	86,742
Written back on disposals	(725)	(4,094)	(3,676)	(2,609)	(8,171)	(19,275)	-	(19,275)
Exchange difference	(624)	(3,256)	(96)	(27)	(666)	(4,669)	-	(4,669)
At 31 March 2019	55,596	177,150	136,854	4,352	250	374,202	-	374,202
Net book value:								
At 31 March 2019	399,689	264,827	363,245	3,545	27,167	1,058,473	356,800	1,415,273

Details of the principal investment properties of the Group as at 31 March 2019 are as follows:

Location	Use	Lease term
Godown A and Godown B, 9th Floor, Ever Gain Centre, No. 28 On Muk Street, Shatin, New Territories, Hong Kong	Commercial and industrial	Medium lease
Office Nos. 6-11, 8th Floor, C-Bons International Centre, No. 108 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong	Commercial	Medium lease
7th Floor, Rainbow Factory Building, No. 149 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong	Commercial and industrial	Medium lease

At 31 March 2019 and 2018, 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 2019, the Group had finance leases contracts in respect of certain motor vehicles and office equipment with capital value at the inception of the contracts HK$921,000 (2018: HK$921,000). At 31 March 2019, the net book value of assets held under finance leases amounted to HK$660,000 (2018: HK$844,000).

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 2019 and 2018 was categorised into level 3.

During the year ended 31 March 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2018: 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 2019 and 2018 were performed by the Group's independent valuer, Colliers International (Hong Kong) Limited, 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	
	2019	2018
(Discount)/premium on quality of the buildings	**0% - 5%**	(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 net income" in the consolidated statement of profit or loss and other comprehensive income.

11 Leasehold Land

	As at 31 March	
	2019	2018
	HK$'000	HK$'000
Cost:		
At 1 April	**63,090**	61,723
Disposals	**(725)**	–
Exchange difference	**(885)**	1,367
At 31 March	**61,480**	63,090
Accumulated amortisation:		
At 1 April	**15,049**	12,884
Charge for the year	**1,645**	1,644
Written back on disposals	**(306)**	–
Exchange difference	**(354)**	521
At 31 March	**16,034**	15,049
Net book value:		
At 31 March	**45,446**	48,041

At 31 March 2019 and 2018, 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 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

	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 2018	390,816	1,220	263,478	216,856	271,332	23,914	37,960	1,205,576
Additions	–	–	–	3,395	–	9,367	1,114	13,876
At 31 March 2019	390,816	1,220	263,478	220,251	271,332	33,281	39,074	1,219,452
Accumulated amortisation:								
At 1 April 2018	–	–	–	42,917	65,246	32	10,241	118,436
Charge for the year	–	–	–	7,516	15,385	63	4,565	27,529
At 31 March 2019	–	–	–	50,433	80,631	95	14,806	145,965
Net book value:								
At 31 March 2019	390,816	1,220	263,478	169,818	190,701	33,186	24,268	1,073,487

The amortisation charge of unpatented drugs, customer relationship, capitalised development costs 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 2019 and 2018.

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	
	2019 **HK$'000**	2018 HK$'000
Goodwill		
Generic drugs	**150,781**	150,781
Proprietary medicines	**240,035**	240,035
	390,816	390,816
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	
	2019	2018
Gross margin	**8% – 69%**	7% – 70%
Growth rate	**3%**	3%
Discount rate	**13% – 16%**	13% – 16%

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.

Capitalised development costs of HK$32,334,000 (2018: HK$22,429,000) are not yet available for use as at the end of Reporting Period. 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 growth rate of 3% which does not exceed the long-term average growth rate for the industry in which the CGU operates. Discount rates of 15% and gross profit margin of 35% have been adopted for the calculations of the recoverable amounts as at the end of Reporting Period.

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
Big Honour Limited (note (ii))	Hong Kong	1 ordinary share	–	100%	Properties holding
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	Hong Kong	5,000,000 ordinary shares	–	100%	Properties holding
Melborn Property Limited (note (iii))	Hong Kong	2 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
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 certain commercial properties through transfer of equity interest in this entity for a consideration of HK$128.2 million in June 2018. This acquisition was classified as an asset acquisition.

(iii) The Group acquired certain industrial premise through transfer of equity interest in this entity for a consideration of HK$250.2 million in November 2018. This acquisition was classified as an asset acquisition.

14 Interests in Associates

Included in interests in associates are amounts due from associates of HK$187,000 (2018: HK$12,603,000) which are 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.

The Group acquired an additional 13% equity interest of JCSHK Investment Co., Ltd. from another independent shareholder and it became the subsidiary of the Group in January 2019.

The following list contains only the particulars of an material associate as at 31 March 2019, of which is 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	Particular of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Orizen Capital Limited ("Orizen")	Incorporated	British Virgin Islands	100 ordinary shares	45%	–	45%	Trading, wholesaling and retailing of Chinese medicine

The Group acquired 45% equity interest in Orizen at a consideration of HK$118,656,000 during the year ended 31 March 2019.

All of the associates are accounted for using the equity method in the consolidated financial statements.

Summarised financial information of an material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Orizen 2019 HK$'000
Gross amounts of the associate's at the end of the year	
Current assets	44,462
Non-current assets	203,143
Current liabilities	(17,289)
Non-current liabilities	(33,423)
Equity	196,893
From 11 July 2018 (date of acquisition) to end of the year	
Revenue	100,237
Profit and total comprehensive income	11,277
Reconciled to the Group's interest in the associate of the end of the year	
Gross amounts of net assets of the associate	196,893
Group's effective interest	45%
Group's share of net assets of the associate	88,602
Goodwill	35,129
Carrying amount in the consolidated financial statements	123,731

14 Interests in Associates (Continued)

Aggregate information of associates that are not individually material:

	2019 **HK$'000**
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**24,834**
Aggregate amounts of the Group's share of those associates:	
Loss and total comprehensive income	**(356)**

15 Other Non-Current Assets

	As at 31 March	
	2019 **HK$'000**	2018 HK$'000
Contingent consideration receivable (note 26)	**–**	801
Prepayments for purchase of non-current assets	**28,168**	25,709
Advance (note)	**44,165**	–
	72,333	26,510

Note: The amount represents advance to a director of a non-wholly owned subsidiary for the purchase of land in Cambodia for the purpose of construction of a manufacturing plant.

16 Inventories

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

	As at 31 March	
	2019 **HK$'000**	2018 HK$'000
Raw materials	**111,921**	116,442
Work in progress	**26,038**	22,175
Finished goods	**195,872**	177,706
	333,831	316,323

(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	
	2019 **HK$'000**	2018 HK$'000
Carrying amount of inventories sold	**1,003,006**	921,455
Write-down of inventories	**11,747**	9,567
	1,014,753	931,022

17 Trade and Other Receivables

	As at 31 March	
	2019	2018
	HK$'000	HK$'000
Trade receivables	**214,185**	197,410
Other receivables	**2,526**	5,661
Contingent consideration receivable (note 26)	**1,084**	3,846
Deposits and prepayments	**59,496**	47,880
	277,291	254,797

At 31 March 2019, the deposits and prepayments expected to be recovered after more than one year amounted to HK$16,965,000 (2018: HK$16,927,000). The remaining trade and other receivables are expected to be recovered within one year.

At 31 March 2019 and 2018, certain bank borrowings were secured by trade receivables as disclosed in note 21(A)(i).

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 loss allowance is as follows:

	As at 31 March	
	2019	2018
	HK$'000	HK$'000
Less than 1 month	**141,841**	113,372
1 to 6 months	**66,096**	74,955
Over 6 months	**6,248**	9,083
	214,185	197,410

The aging analysis of trade receivables (net of loss allowance) by due dates is as follows:

	As at 31 March	
	2019	2018
	HK$'000	HK$'000
Current	**103,123**	106,975
Less than 1 month past due	**89,974**	65,708
1 to 3 months past due	**14,082**	14,647
Over 3 months past due	**7,006**	10,080
	214,185	197,410

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 28(A).

18 Other Financial Assets

		As at 31 March	
	Note	**2019 HK$'000**	2018 HK$'000
Equity securities designated at FVOCI (non-recycling)			
– Unlisted equity securities	(i)	**248,419**	–
Financial assets measured at FVPL			
– Unlisted in Hong Kong		**6,901**	–
Available-for-sale financial assets	(ii)		
– Unlisted equity securities		**–**	117,718
		255,320	117,718

Notes:

(i) In addition to the available-for-sale financial assets held prior to 1 April 2018 (see note (ii) below), the Group also designated its investments in equity securities acquired during the year ended 31 March 2019 at FVOCI (non–recycling) under HKFRS 9 which are mainly represented by the investment in Shanghai Fosun Pharmaceutical (Group) Co., Ltd. These designations were chosen as the investments are held for strategic purposes. No dividends were received on these investments during the year since acquisitions.

(ii) Available-for-sale financial assets which were measured at cost less impairment losses prior to 1 April 2018 were reclassified to financial assets measured at FVOCI (non-recycling) upon the initial application of HKFRS 9 at 1 April 2018 (see note 1(E)(i)).

19 Cash and Cash Equivalents and Other Cash Flow Information

(A) CASH AND CASH EQUIVALENTS COMPRISE:

	As at 31 March	
	2019 HK$'000	2018 HK$'000
Short-term deposits with banks	**100,529**	320,601
Cash at bank and in hand	**529,313**	336,132
	629,842	656,733

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

		Year ended 31 March	
	Note	**2019 HK$'000**	2018 HK$'000
Operating activities			
Profit before taxation		**315,088**	251,223
Adjustments for:			
Depreciation and amortisation		**115,916**	112,434
Net gain on disposals of property, plant and equipment and leasehold land	3	**(5,049)**	(30)
Finance costs	4(A)	**66,198**	46,005
Interest income from bank deposits	3	**(4,745)**	(3,947)
Fair value gain on investment properties	3	**(23,374)**	(12,644)
Fair value gain on contingent consideration receivable	3	**(353)**	(718)
Equity-settled share-based payment expenses	4(B)	**5,349**	9,734
Share of profits less losses of associates		**(4,719)**	–
Changes in working capital:			
Increase in inventories		**(17,508)**	(38,940)
Increase in trade and other receivables		**(21,668)**	(50,935)
Increase/(decrease) in trade and other payables		**6,758**	(13,180)
Cash generated from operations		**431,893**	299,002

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 2018	**903,872**	**844**	**447,097**	**1,351,813**
Changes from financing cash flows:				
Capital element of finance lease rentals paid	**–**	**(184)**	**–**	**(184)**
Proceeds from bank loans	**709,016**	**–**	**–**	**709,016**
Repayment of bank loans	**(783,242)**	**–**	**–**	**(783,242)**
Borrowing costs paid	**(28,788)**	**(47)**	**(13,169)**	**(42,004)**
Total changes from financing cash flows	**(103,014)**	**(231)**	**(13,169)**	**(116,414)**
Other changes:				
Finance charges on obligations under finance leases (note 4(A))	**–**	**47**	**–**	**47**
Interest expenses (note 4(A))	**28,788**	**–**	**37,363**	**66,151**
Increase in accrued interests	**–**	**–**	**(4,331)**	**(4,331)**
Total other changes	**28,788**	**47**	**33,032**	**61,867**
At 31 March 2019	**829,646**	**660**	**466,960**	**1,297,266**

	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	
	2019	2018
	HK$'000	HK$'000
Trade payables	**40,458**	35,188
Salary and bonus payables	**38,533**	37,155
Payables and accruals for additions of property, plant and equipment	**2,638**	2,373
Other payables and accruals	**29,965**	28,709
Receipts in advance [#]	**5,338**	2,128
	116,932	105,553

[#] These balances represent the excess of cumulative payments made by customers over the cumulative revenue in profit or loss at the end of the Reporting Period, and recognised as contract liabilities since the initial application of HKFRS 15 at 1 April 2018 (see note 1T(ii)).

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	
	2019	2018
	HK$'000	HK$'000
Within 1 month	**24,085**	18,784
1 to 6 months	**16,290**	16,404
Over 6 months	**83**	–
	40,458	35,188

21 Borrowings

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

	As at 31 March	
	2019	2018
	HK$'000	HK$'000
Current liabilities:		
Current portion of bank loans (note 21(A))	**440,079**	438,752
Non-current portion of bank loans with repayable on demand clause (note 21(A))	**18,320**	465,120
Bank loans	**458,399**	903,872
Obligations under finance leases (note 21(B))	**184**	184
Non-current portion of convertible notes with specific redemption clause (note 21(C))	**466,960**	447,097
	925,543	1,351,153
Non-current liabilities:		
Obligations under finance leases (note 21(B))	**476**	660
Non-current portion of bank loans (note 21(A))	**371,247**	–
	1,297,266	1,351,813

21 Borrowings (Continued)

(A) BANK LOANS

(i) Bank loans were analysed as follows:

	As at 31 March	
	2019	2018
	HK$'000	HK$'000
Bank loans		
– secured	**762,098**	896,316
– unsecured	**67,548**	7,556
	829,646	903,872

As at 31 March 2019 and 2018, 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$1,390,231,000 as of 31 March 2019 (2018: HK$1,260,344,000). These facilities were utilised to the extent of HK$849,633,000 (2018: HK$916,682,000).

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	
	2019	2018
	HK$'000	HK$'000
Property, plant and equipment	**372,007**	276,714
Leasehold land	**42,819**	45,315
Investment properties	**356,800**	62,000
Trade receivables	**100,000**	80,000
	871,626	464,029

21 Borrowings (Continued)

(A) BANK LOANS (Continued)

(ii) 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 2019, none of the covenants relating to drawn down facilities had been breached (2018: Nil). Further details of the Group's management of liquidity risk are set out in note 28(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 2019 and 2018 were classified as current liabilities in the consolidated statement of financial position.

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

	As at 31 March	
	2019	2018
	HK$'000	HK$'000
Bank loans due for repayment:		
Within one year	**440,079**	438,752
After 1 year but within 2 years	**110,209**	87,250
After 2 years but within 5 years	**248,038**	295,244
After 5 years	**31,320**	82,626
	389,567	465,120
	829,646	903,872

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			
	2019		2018	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	HK$'000	**HK$'000**	HK$'000	HK$'000
Within 1 year	**184**	**231**	184	231
After 1 year but within 2 years	**184**	**231**	184	231
After 2 years but within 5 years	**292**	**366**	476	596
	476	**597**	660	827
	660	**828**	844	1,058
Less: Total future interest expense		**(168)**		(214)
Present value of lease obligations		**660**		844

21 Borrowings (Continued)

(C) CONVERTIBLE NOTES

	HK$'000
Proceeds from issuance of convertible notes (200,000,000 notes at initial conversion price at HK$2.5)	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
At 31 March 2018 and 1 April 2018	447,097
Accreted interest	19,863
As 31 March 2019	466,960

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 2019 and 2018, the convertible notes were classified as repayable within 1 year or on demand.

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 2019, none of the events of default occurred. These convertible notes as at 31 March 2019 and 2018 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 at the maturity date of the convertible notes of 5 October 2020 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 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
At 1 April 2018	**82,103**	**101,711**	**(46,848)**	**136,966**
Acquisition of subsidiaries	**2,104**	**–**	**–**	**2,104**
(Credited)/charged to profit or loss	**(3,403)**	**(1,070)**	**6,650**	**2,177**
Exchange difference	**139**	**–**	**–**	**139**
At 31 March 2019	**80,943**	**100,641**	**(40,198)**	**141,386**

Reconciliation to the consolidated statement of financial position

	As at 31 March	
	2019 HK$'000	2018 HK$'000
Deferred tax assets recognised in the consolidated statement of financial position	**(5,976)**	(4,191)
Deferred tax liabilities recognised in the consolidated statement of financial position	**147,362**	141,157
	141,386	136,966

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 2019, in accordance with the accounting policy set out in note 1(W), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$26,942,000 (2018: HK$24,473,000), 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 2018 and 2019 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 2018 and 2019	5,000,000	50,000
Issued:		
At 1 April 2017, 31 March 2018 and 1 April 2018	1,815,625	18,156
Issuance of ordinary shares	200,000	2,000
At 31 March 2019	2,015,625	20,156

On 14 August 2018, the Company entered into a subscription agreement with Yunnan Baiyao Holdings Company Limited (雲南白藥控股有限公司) ("Yunnan Baiyao") in respect of 200,000,000 new ordinary shares at the subscription price of HK$2.06 per share. The Company completed the issuance of the ordinary shares to Yunnan Baiyao on 3 September 2018. Net proceeds from such issue amounted to HK$411,658,000 (after the deduction of share issuance costs of HK$342,000) of which HK$2,000,000 and HK$409,658,000 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 2019 HK$'000	2018 HK$'000
Non-current assets			
Interests in subsidiaries		**1,971,378**	1,405,197
Prepayment		**10,245**	–
		1,981,623	1,405,197
Current assets			
Prepayment		**440**	103
Cash and cash equivalents		**10,891**	196,774
		11,331	196,877
Current liabilities			
Other payables		**4,331**	4,330
Amounts due to subsidiaries		**72,079**	140,848
Convertible notes	21(C)	**466,960**	447,097
		543,370	592,275
Net current liabilities		**(532,039)**	(395,398)
NET ASSETS		**1,449,584**	1,009,799
CAPITAL AND RESERVES			
Share capital		**20,156**	18,156
Reserves		**1,429,428**	991,643
TOTAL EQUITY		**1,449,584**	1,009,799

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 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(B))	–	–	–	(25,419)	(25,419)
Dividends declared in respect the current year (note 9(A))	–	–	–	(16,341)	(16,341)
Equity-settled share-based transactions (note 27)	–	–	9,734	–	9,734
Issuance of convertible notes (note 21(C))	–	–	52,470	–	52,470
At 31 March 2018 and 1 April 2018	18,156	717,058	266,147	8,438	1,009,799
Profit for the year	–	–	–	115,085	115,085
Dividends approved in respect of the previous year (note 9(B))	–	–	–	(58,453)	(58,453)
Dividends declared in respect the current year (note 9(A))	–	–	–	(30,234)	(30,234)
Equity-settled share-based transactions (note 27)	–	–	1,729	–	1,729
Issuance of new shares	2,000	409,658	–	–	411,658
At 31 March 2019	20,156	1,126,716	267,876	34,836	1,449,584

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. Under the Companies Law (Revised) of the Cayman Islands, the fund in the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(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 Jacobson Pharma Group (BVI) Limited ("JPG (BVI)") acquired during the group reorganisation completed on 18 March 2016 (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(V)(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(R).

(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(Z).

(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 Acquisitions of subsidiaries

(A) BUSINESS COMBINATIONS

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 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 ended 31 March 2018	
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 2019, the outstanding contingent consideration receivable amounted to HK$1,084,000.

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 2012/13 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 Acquisitions of subsidiaries (Continued)

(A) BUSINESS COMBINATIONS (Continued)

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.

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.

(B) ASSETS ACQUISITIONS

During the year ended 31 March 2019, the Group acquired certain commercial properties and industrial premise through transfer of equity interests in two entities for a consideration of HK$128.2 million and HK$250.2 million in June 2018 and November 2018 respectively.

27 Equity-settled Share-based Transactions

(A) SHARE INCENTIVE SCHEME/SHARE AWARD SCHEME

(i) SHARE INCENTIVE SCHEME ADOPTED ON 30 AUGUST 2016 ("OLD SCHEME")

On 16 October 2018 (2018: 19 April 2017 and 22 January 2018), pursuant to the Old 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 7,231,000 ordinary shares of the Company (2018: 6,000,000 and 11,465,000 ordinary shares of the Company respectively), from The Jacobson Pharma (PTC) Limited, with vesting date on 23 January 2019 (2018: 21 April 2017 and 23 January 2018). There were a total of 3,750,000 share award granted to all executive directors, which are subject to a lock up period of 1 year from the vesting date. (2018: 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 grant.) All the share awards granted of 7,231,000 ordinary shares (2018: 17,465,000 ordinary shares) have been vested during the years ended 31 March 2019 and 2018 and there was no outstanding share awards granted as at 31 March 2019 and 2018.

The acquisition prices of the share awards were HK$1.61 per ordinary share (2018: HK$1.64 and HK$1.90 per ordinary share) for the share awards granted on 16 October 2018 (2018: 19 April 2017 and 22 January 2018 respectively). The market closing price at that date was HK$1.61 per ordinary share (2018: HK$1.64 and HK$1.90 per ordinary share respectively). The fair values of the share awards at grant dates were effectively zero.

27 Equity-settled Share-based Transactions (Continued)

(A) SHARE INCENTIVE SCHEME/SHARE AWARD SCHEME (Continued)

(ii) SHARE AWARD SCHEME ADOPTED ON 16 OCTOBER 2018 ("NEW SCHEME")

On 16 October 2018, the Group terminated the Old Scheme after the vesting of all the available share awards to the relevant grantees eligible under the Old Scheme and adopted the New Scheme.

Pursuant to the New Scheme, the directors of the Company are authorised, at their discretion to determine individuals, including directors and employees of any companies in the Group, for granting them the Company's shares. The New Scheme will be valid and effective for a period of 10 years commencing from 16 October 2018.

The Company's shares to be granted under the New Scheme will be purchased and held by a trustee. The maximum of purchases by the trustee in any financial year will be fixed by the Company's board of directors but such purchases will not result the trustee holding at any time more than 3% of the total issued shares of the Company.

In addition, unless approved by the Company's board of directors, no share award will be granted to any individual if granting of such share award would result in the total number of shares granted to the individual during any 12-month period exceeding 0.5% of the total issued shares of the Company (0.1% of the total issued shares of the Company in case for an independent non-executive director of the Company).

There was no share award granted under the New Scheme during the year ended 31 March 2019.

(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	

27 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			
	2019		2018	
	Weighted average exercise price HK$	**Number of options '000**	Weighted average exercise price HK$	Number of options '000
Outstanding at the beginning of the year	**2.06**	**36,600**	–	–
Granted during the year	**–**	**–**	2.06	37,000
Forfeited during the year	**2.06**	**(500)**	2.06	(400)
Lapsed during the year	**2.06**	**(11,620)**	–	–
Outstanding at the end of the year	**2.06**	**24,480**	2.06	36,600
Exercisable at the end of the year	**2.06**	**12,620**	2.06	11,910

No shares options were exercised during the year ended 31 March 2019 (2018: nil).

The options outstanding at 31 March 2019 had an exercise price of HK$2.06 (2018: HK$2.06) and a weighted average remaining contractual life of 1 year (2018: 2).

(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.

28 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 and trade and other receivables. 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.

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 2019, 9.8% (2018: 5.5%) of the total trade and other receivables was due from the Group's largest debtor and 29.9% (2018: 16.7%) was due from the five largest debtors respectively.

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 measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The Group assessed that there is no significant loss allowance recognised in accordance with HKFRS9 as at 31 March 2019 and no provision matrix has therefore been disclosed.

Expected loss rates are based on actual loss experience over the past two years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under HKAS 39

Prior to 1 April 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(O)(i) – policy applicable prior to 1 April 2018).

Trade receivables that were past due but not impaired related to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable. No impairment loss on trade receivables was recognised by the Group at 31 March 2018.

(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.

The contractual undiscounted cash outflows of trade and other payables as at 31 March 2019 and 2018 are due within 1 year or on demand and equal to their carrying value at the end of the Reporting Period. The contractual undiscounted cash outflows of obligations under finance leases are disclosed under "Total minimum lease payments" in note 21(B).

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).

28 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 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	–	459,235	99,776	318,093	87,662	964,766	903,872
Convertible notes	–	17,500	17,500	508,774	–	543,774	447,097
	–	476,735	117,276	826,867	87,662	1,508,540	1,350,969
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

	As at 31 March 2019						
	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	**–**	**460,228**	**96,471**	**288,642**	**36,427**	**881,768**	**829,646**
Convertible notes	**–**	**17,500**	**508,750**	**–**	**–**	**526,250**	**466,960**
	–	**477,728**	**605,221**	**288,642**	**36,427**	**1,408,018**	**1,296,606**
Adjustments to disclose cash flows on bank loans based on lender's right to demand repayment	**188,983**	**(172,915)**	**(5,616)**	**(12,553)**	**(1,488)**	**(3,589)**	**–**
Adjustments to disclose cash flows on convertible notes based on notesholders' right to demand redemption	**504,331**	**(17,500)**	**(508,750)**	**–**	**–**	**(21,919)**	**–**
	693,314	**287,313**	**90,855**	**276,089**	**34,939**	**1,382,510**	**1,296,606**

28 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			
	2019 Effective interest rate	**Amount HK$'000**	2018 Effective interest rate	Amount HK$'000
Fixed rate borrowings:				
Obligations under finance leases	**5.16%**	**660**	5.16%	844
Convertible notes	**8.19%**	**466,960**	8.19%	447,097
		467,620		447,941
Variable rate borrowings:				
Bank loans	**2.25% – 5%**	**829,646**	1.88% – 5%	903,872
Total interest-bearing borrowings		**1,297,266**		1,351,813
Fixed rate borrowings as a percentage of total net borrowings		**36.0%**		**33.1%**

(ii) Sensitivity analysis

As at 31 March 2019, 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 earnings by approximately HK$693,000 (2018: HK$755,000).

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 2018.

28 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 which draws down 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					
	2019			2018		
	United States dollars HK$'000	**Euros HK$'000**	**Renminbi HK$'000**	United States dollars HK$'000	Euros HK$'000	Renminbi HK$'000
Cash and cash equivalents	**1,396**	**11**	**4,695**	220,646	1,029	7
Trade and other receivables	**2,578**	**7,823**	**6,772**	4,661	601	3,037
Trade and other payables	**(3,937)**	**(7,118)**	**(2,779)**	(1,618)	(3,770)	(98)
Net exposure arising from recognised assets and liabilities	**37**	**716**	**8,688**	223,689	(2,140)	2,946

28 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 earnings 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			
	2019		2018	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained earnings HK$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained earnings HK$'000
Euros	**9%**	**54**	16%	(342)
	(9)%	**(54)**	(16)%	342
Renminbi	**6%**	**435**	10%	246
	(6)%	**(435)**	(10)%	(246)

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 2018.

(E) FAIR VALUE MEASUREMENT

(a) Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

28 Financial Risk Management and Fair Values (Continued)

(E) FAIR VALUE MEASUREMENT (Continued)

(a) Fair value hierarchy (Continued)

The following table presents the Group's financial assets that were measured at fair value at 31 March 2019.

	Fair value at 31 March 2019 HK$'000	**Fair value measurements at 31 March 2019 categorised into Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**
Financial assets:				
Financial assets at FVPL	**6,901**	**–**	**6,901**	**–**
Financial assets at FVOCI	**248,419**	**–**	**248,419**	**–**
Contingent consideration receivable	**1,084**	**–**	**–**	**1,084**
	256,404	**–**	**255,320**	**1,084**

	Fair value at 31 March 2018 HK$'000	Fair value measurements at 31 March 2018 categorised into Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Financial assets:				
Contingent consideration receivable	4,647	–	–	4,647

During the year ended 31 March 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2018: HK$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.

(b) Valuation techniques and inputs used in Level 2 fair value measurement

The fair values of the financial assets at FVOCI are determined with reference to the pricing of the recent transactions or offerings of the investees' shares.

(c) Valuation techniques and inputs used in Level 3 fair value measurement

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 Net Profit decreases. As at 31 March 2019 and 2018, it is estimated that with all other variables held consent, an increase/decrease in the Net Profit by 10% would have no significant impact to the Group's profit.

29 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	
	2019	2018
	HK$'000	HK$'000
Authorised and contracted for		
– Purchase of non-current assets	**54,508**	7,429
– Investment in an associate	**–**	32,779
	54,508	40,208

30 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	
	2019	2018
	HK$'000	HK$'000
Within 1 year	**48,792**	37,796
After 1 year but within 5 years	**42,935**	31,047
	91,727	68,843

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.

31 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.

32 Immediate and Ultimate Controlling Party

At 31 March 2019, 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.

33 Accounting Judgments and Estimates

KEY SOURCES OF ESTIMATION UNCERTAINTY

Notes 10, 27 and 28 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) 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.

34 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 March 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2019 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard 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 standard is initially applied in the Group's interim financial report for the six months ended 30 September 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

34 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 March 2019 (Continued)

HKFRS 16, *LEASES*

As disclosed in note 1(N), 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 some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, 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 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.

HKFRS 16 is effective for annual periods beginning on or after 1 April 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019 and will not restate the comparative information. As disclosed in note 30, at 31 March 2019 the Group's future minimum lease payments under non-cancellable operating leases amounted to HK$91,727,000 for properties, significant portion of which is payable between 1 and 5 years after the reporting date. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to HK$60,146,000 and HK$59,397,000 respectively, after taking account the effects of discounting, as at 1 April 2019.

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				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**1,704,641**	1,548,684	1,255,957	1,083,856	947,591
Cost of sales	**(1,014,753)**	(931,022)	(699,069)	(596,101)	(562,883)
Gross profit	**689,888**	617,662	556,888	487,755	384,708
Other net income/(loss)	**37,489**	19,506	11,740	(465)	6,005
Selling and distribution expenses	**(177,701)**	(167,075)	(145,350)	(133,807)	(105,061)
Administrative and other operating expenses	**(173,109)**	(172,865)	(188,036)	(167,963)	(146,810)
Profit from operations	**376,567**	297,228	235,242	185,520	138,842
Finance costs	**(66,198)**	(46,005)	(13,996)	(2,523)	(2,707)
Share of profits less losses of associates	**4,719**	–	–	–	–
Profit before taxation	**315,088**	251,223	221,246	182,997	136,135
Income tax	**(56,410)**	(46,323)	(39,986)	(30,335)	(22,157)
Profit for the year	**258,678**	204,900	181,260	152,662	113,978
Profit attributable to:					
Shareholders of the Company	**250,561**	202,270	179,328	145,610	101,904
Non-controlling interests	**8,117**	2,630	1,932	7,052	12,074
Total profit for the year	**258,678**	204,900	181,260	152,662	113,978

	As at 31 March				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total non-current assets	**3,016,587**	2,369,473	2,136,155	1,322,061	1,311,176
Total current assets	**1,244,007**	1,241,682	833,912	499,989	394,035
Total current liabilities	**1,054,371**	1,461,363	1,058,489	816,835	650,238
Total non-current liabilities	**519,085**	141,817	139,260	49,070	48,338
Net current assets/(liabilities)	**189,636**	(219,681)	(224,577)	(316,846)	(256,203)
Total assets less current liabilities	**3,206,223**	2,149,792	1,911,578	1,005,215	1,054,973
Net assets	**2,687,138**	2,007,975	1,772,318	956,145	1,006,635

Glossary

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

"2019 AGM"	the forthcoming 2019 annual general meeting of the Company
"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 share of profits less losses of associates and non-recurring items not attributable to the operations of individual segments
"adjusted EBITDA margin"	adjusted EBITDA divided by revenue and multiplied by 100%
"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", "Mainland 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
"Fosun Henlius"	Shanghai Henlius Biotech Inc.
"FY2018"	the year ended 31 March 2018
"FY2019" or "Reporting Period"	the year ended 31 March 2019
"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
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKIB"	Hong Kong Institute of Biotechnology
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited
"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)
"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
"Mr. Lau"	Mr. Lau Wing Hung, one of our Controlling Shareholders
"Mr. Sum"	Mr. Sum Kwong Yip, Derek, our chairman, executive Director, chief executive officer and one of our Controlling Shareholders
"NAMI"	Nano & Advanced Materials Institute Limited
"net debts"	bank loans and convertible notes less cash and cash equivalents
"net gearing ratio"	net debts divided by total equity multiplied by 100%
"OTC"	over-the-counter
"PIC/S"	two international instruments, the Pharmaceutical Inspection Convention and the Pharmaceutical Inspection Co-operation Scheme, which seek to promote constructive co-operation in the field of GMP between the participating authorities in different geographic markets
"PIC/S GMP"	Good Manufacturing Practice in accordance with the PIC/S GMP Guide issued by PIC/S
"Private Sector"	refers to non-Public Sector
"Prospectus"	the prospectus issued by the Company dated 8 September 2016
"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 Award Scheme"	the share award scheme adopted by our Company on 16 October 2018, the principal terms of which are summarised in the announcement of the Company dated 16 October 2018
"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

Jacobson
Pharma Corporation

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