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

Interim 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

HONG KONG HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS

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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

AUDITOR

KPMG

PRINCIPAL BANKERS

(in alphabetical order)
China Construction Bank (Asia) Corporation Ltd.
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

PUBLIC RELATIONS CONSULTANT

Strategic Public Relations Group

INVESTOR RELATIONS

Email: jacobsonpharma@sprg.com.hk

STOCK CODE

2633

COMPANY WEBSITE

www.jacobsonpharma.com

FINANCIAL HIGHLIGHTS

	Six months ended 30 September 2019 HK$'000	Six months ended 30 September 2018 HK$'000	Change
Revenue			
– Generic Drugs	626,867	595,227	+5.3%
– Proprietary Medicines	130,340	110,743	+17.7%
– Wholesale and Retail	114,479	110,290	+3.8%
Total	871,686	816,260	+6.8%
Gross profit	358,517	318,694	+12.5%
Gross profit margin (%)	41.1%	39.0%	+5.4%
Profit attributable to shareholders of the Company	127,218	97,531	+30.5%
Profit margin attributable to shareholders of the Company (%)	14.6%	11.9%	+22.7%
Adjusted EBITDA (1)	255,968	211,516	+21.0%
Adjusted EBITDA margin (%) (2)	29.4%	25.9%	+13.5%
Return on equity (%) (3)	9.7%	9.1%	+6.6%

	As at 30 September 2019 HK$'000	As at 31 March 2019 HK$'000	Change
Total assets	4,657,259	4,260,594	+9.3%
Total liabilities	1,921,901	1,573,456	+22.1%
Total equity	2,735,358	2,687,138	+1.8%

(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 non-recurring items not attributable to the operations of individual segments.

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

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

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 a 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 a 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.

Creating Values

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Amidst the stresses to the economy inflicted by the continuing civil unrest in Hong Kong, the Group maintained a moderate growth of 6.8% posting a total revenue of HK$871.7 million during the first six months period ended 30 September 2019. Profit attributable to shareholders, on the other hand, delivered an encouraging growth of 30.5% mainly bolstered by consistent sales performance along with operating leverages and financial savings derived from effective cost control measures.

Backed by its strong market position, the Group's Generic Drugs business has sustained a steady growth momentum with continuing efforts in enhancing product offerings to meet demands from both the Public and Private Sectors. Proprietary Medicines segment of the Group also registered a modest growth in light of the relatively hard-hit local retail sector. Despite the bleak statistics on consumer consumption and tourist visits, Po Chai Pills and Ho Chai Kung brand products have both delivered a decent growth in Hong Kong and Macau buttressed by our persistent and effective brand management and marketing efforts.

With solid progress on the business development front, the Group has been successfully forging strategic collaborations with multinational partners covering in-licensing and technology transfer of high-end generic drugs and representation of reputable brand products in the Greater China and Asia by leveraging its regional commercial platform to tap growth potential of the burgeoning healthcare markets. As an integral part of the growth strategy, the regional expansion plan of the Group has gained traction with established operations in several strategically selected locations.

Sustained Growth Momentum for Generics

The performance of the Generic Drugs business of the Group maintained a steady growth though inevitably hampered by the economic distress from the unrest in Hong Kong. During the Reporting Period, the Group registered a positive growth of 5.3% for its Generic Drugs business achieving a sales revenue of HK$626.9 million.

Overall growth generated from the Generic Drugs segment was encouraging mainly attributable to expanded product offerings of its broad and targeted portfolio, along with the exacerbating healthcare demands resulted from aging population and prevalence of chronic diseases despite the Private Sector had been impeded by the wide-spread and continuing protests in numerous major retail and tourist areas of the city in the past months.

Strong Performance of Therapeutic Class Products

Sales growth of products in therapeutic classes such as cardiovascular and central nervous system treatments have been strong. Beta-blockers and calcium antagonists classes within the Group's cardiovascular product series recorded a growth of 25.0% and 21.1% respectively during the Reporting Period. Referring to the Group's central nervous system product series, the antipsychotics class recorded a growth of 15.1% with the award of a new tender for Risperidone Tablets, whilst the hypnotics class recorded a 9.4% growth. Besides, oral anti-diabetics class also delivered a robust growth of 32.2% owing to up-surged market demand.

Newly secured tenders by the Group included Diltiazem Controlled Released Tablet and Thymol Gargle, which were awarded to the Group for the first time.

For the Private Sector, sales of the Group's angiotensin II antagonists products, including the newly launched product Valsartan Tablets, recorded a staggering growth of 330.3%, alongside the growth of 14.4% and 13.8% respectively in beta-blockers and calcium antagonists classes within the Group's cardiovascular product series. The nonsteroidal anti-inflammatory drugs class also posted a notable growth of 27.6% due to the launch of new products including Celecoxib Capsules and Etoricoxib Tablets.

Serving Evolving Healthcare Demand under Government Programs

Around 30,000 public hospital patients suffering from hypertension, diabetes mellitus or hyperlipidemia have been receiving primary care services provided by private practices in 18 districts of Hong Kong since the launch of the General Outpatient Clinic Public-Private Partnership Programme (GOPC PPP) in 2014 in an attempt by the government to alleviate the strains in public healthcare system. The new Glaucoma Public-Private Partnership Programme (Glaucoma PPP) was introduced in 2019 aiming to provide choice to patients for receiving private specialist services in the community. New clinical PPP initiatives are being explored by public hospitals to meet the emerging healthcare needs. As the leading provider of generic drugs and the active manufacturer in Hong Kong for a number of specialised dosage forms including sterile eye drops and suppositories, the Group is well-positioned to exploit the emerging demand from both the Public and Private Sectors.

New Products Introduction

A number of new products including Diltiazem Controlled Release Tablet, Dihydrocodeine Tablet and Propranolol Oral Solution were launched during the Reporting Period as our continuing effort in introducing quality generics to meet medical and patient needs. Also, the Group has secured registration approvals for a number of new products such as Desloratadine of the antihistamines class and Metronidazole Gel of the dermatological class. Furthermore, a host of pipeline products mostly in the central nervous system category are undergoing product registration at this stage.

Enhanced Capacity and Efficiency in Production

All of the Group's manufacturing units operated effectively during the Reporting Period with the manufacturing output of solid products reaching a record high at 1,598 million tablets and capsules, representing a 13.5% increase over the same period of last year. Overall manufacturing capacity and efficiency of the Group has been further enhanced with the on-going integration and streamlining program, along with effective raw material procurement and production management.

The liquid and cream products output has remained stable during the Reporting Period at approximately 162,000 kg and 1.29 million liters in total respectively.

One of the Group's PIC/S GMP accredited manufacturing subsidiaries, Jean-Marie Pharmacal Co. Ltd., has been spearheading the formulation refinement and production of Weisen-U (胃仙-U), a well-recognised gastrointestinal drug with its unique dual layer formulation demanding specialised production know-how and capability, since January 2019.

In a nutshell, the effective integration of our new plants and acquired business units for enhanced production capabilities and capacity has further strengthened the Group's position as a leading generics manufacturer in Hong Kong to cater for business growth and the increasing market demand.

Business Development to Tap New Market Potentials

Enhancing Portfolio for High Value-added Offerings

Aiming to supplement our R&D pipeline and broaden our portfolio of specialty drugs to tap new potentials of the market, the Group has been actively forging collaborations with multinational partners covering in-licensing and technology transfer of high-end generic drugs, biosimilars and medical devices, and the representation of finished brand products in the Asia Pacific region by leveraging on its regional commercial platform.

During the Reporting Period, the Group has signed exclusive in-license agreements for a total of 19 specialised drugs covering the cardiovascular, central nervous system, infectious diseases, oncology, gastrointestinal, ophthalmology and other therapeutic classes, including a medical device for RSV (Respiratory Syncytial Virus) & Influenza rapid diagnostics test kit, with reputable manufacturers in Greece, Spain, South Korea and Taiwan. Among them, 12 items are eligible for tender bidding in the coming years.

In particular, the RSV (Respiratory Syncytial Virus) & Influenza rapid diagnostics test kit can serve as an important handy diagnostic tool for the communicable disease, especially in ASEAN countries with less developed medical resource support. The rapid test kit allows clinicians to promptly start antiviral treatment in high-risk patients and formulate effective infection control measures by enabling them to make informed decisions on diagnostic investigations, reducing unnecessary chest radiography and blood test in ambulatory care settings.

Tapping High Growth Medical and Consumer Nutrition Markets

Targeting the functional food and Food for Special Medical Purpose (FSMP) markets of high growth potential, the Group has had a head start for the launch of two medical nutrition products in Hong Kong, namely Aterinorm from Difass in Italy and Gynositol from Indigo in France. Arterinorm is a food supplement containing a complex composition of natural substances that are beneficial for the physiological control of cholesterol plasma level with efficacy well-documented in several published clinical trials on over 1,700 patients. In Hong Kong, approximately 2,900,000 people are estimated to have a high cholesterol level in a recent study. Gynositol, another clinically-proven food supplement, contains Myo-inositol and Folic Acid which can act at the ovary level for improving oocyte quality and fertility, especially among PCOS (polycystic ovary syndrome) patients.

In the consumer nutrition arena, the Group has entered into an in-license agreement with Smartfish from Norway in a strategic collaboration to launch its clinically-tested health and sports nutrition drinks in Asia. Developed under its patented emulsion technology, Smartfish emulsion is differentiated from standard fish oil supplements through the potentiating anti-inflammatory effects of its high Omega-3 fatty acids concentration in synergy with other nutrients that delivers various health benefits, along with its superior taste. SMARTFISH REFLECT is specially designed to improve cognitive function, immune strength and muscle performance. It has been launched in Hong Kong and will be introduced to Taiwan and China in 2020.

The SMARTFISH RECHARGE series, which addresses the large and growing sports nutrition market, is designed to promote speedy and effective recovery after eccentric exercise as well as improve muscle performance. Smartfish is the official supplier of sports nutrition drinks for British Premier League Tottenham Hotspur Football Club and the products are currently used by top athletes across the professional and amateur spheres. SMARTFISH RECHARGE is targeted for launch in Hong Kong, Taiwan and China in 2020.

Building Market Leadership for Atropine Eye Drops in Myopia Control

The Group is the exclusive distributor for Atropine 0.01%, 0.05% and 0.125% eye drops manufactured by Aseptic Innovative Medicine Co., Ltd, for regional markets of Hong Kong, Singapore, Malaysia and Guangdong Province of China. Low concentration formulations of atropine eye drops have proved to be effective in slowing down the progression of myopia for young-aged children by recent double-blind controlled clinical trials. The market leadership of the products built by our business development team has well-positioned us to cater for the growing demand across the markets arising from the increased awareness of the myopia control benefits of this specialised formulation. Myopia is a public health issue prevalent in Hong Kong and many other Asian countries, which is associated with some long-term health complications and has become a major public health concern.

Brand Resilience and Growth Momentum of Proprietary Medicines Brands

In spite of the turmoil to the local economy and retail industry caused by the protests in Hong Kong that have shown no sign of abatement, sales performance of the Group's Proprietary Medicines business maintained a modest growth during the Reporting Period. Together with the incorporation of our newly acquired proprietary Chinese medicines business, the Group's Proprietary Medicines segment posted a growth of 17.7% for a total revenue at HK$130.3 million.

Po Chai Pills, the leading Chinese gastrointestinal medicine brand in Hong Kong with strong presence in overseas markets, delivered a decent growth of 11.0% in Hong Kong and Macau markets in terms of sales revenue during the Reporting Period with sustained growth momentum buttressed by our persistent brand building, marketing and promotion efforts.

Consistently riding on the creative campaign theme of "Diarrhea, Vomiting, Bloating, Stomach Pain and Indigestion" (屙，嘔，脹，痛，滯) featured by famous DJ and celebrity Jim Yan (少爺占), the advertising strategy for Po Chai Pills has been enhanced to target mainland Chinese visitors with media exposure reaching out to cross-border billboards, SMS sales message and Xiaohongshu (小紅書), a leading lifestyle online community platform in China, to strategically build effective brand awareness prior to their arrival in Hong Kong.

Also demonstrating a strong brand resilience is Ho Chai Kung, the widely recognised heritage brand in the analgesics category, which delivered a notable growth of 27.3% in Hong Kong and Macau versus the same period of last year. Riding also on its new creative campaign featured by popular TV artist Louis Yuen (阮兆祥) for its speedy pain relief power, marketing activities of Ho Chai Kung have been focused on enhancing brand visibility and awareness through outdoor, transit and in-store advertising, along with connecting target and potential consumers through various social media platforms and event sponsorship.

Ho Chai Kung Hou Cho San (何濟公猴棗散), a new product of Ho Chai Kung for treatment of symptoms such as phlegm, cough, colds, pediatric fever, vomiting, and restless sleep among children, has been recently launched in Hong Kong and its distribution will be extended to Macau and selected key online sales platform to maximise its market penetration.

Shiling Oil, a medicated oil brand of the Group, has been delivering a strong growth momentum in overseas markets presenting a 28.8% increase during the Reporting Period. Enhanced marketing efforts and resources have been deployed for building the brand and business of Shiling Oil. Under its line extension strategy, a newly developed product, Shiling Inhaler, will be launched early next year.

To capitalise on the reach and penetration of major cross-border online shopping platforms in China, we have been exploring options and opportunities for marketing and selling the Group's proprietary brand products with this newly introduced e-commerce model. Po Chai Pills, for example, has been successfully listed in the two cross-border e-commerce online platforms in China, namely JD Worldwide (京東全球購) and Tian Mao International (天貓國際), where Chinese consumers can make purchase on overseas products directly online with cross-border to-the-door delivery service. This cross-border online sales channel presents a major market potential for our proprietary brand products to tap into.

R&D Pipeline on Track

We continued to make good progress with our product pipeline in the Reporting Period. A total of 4 products, including three strengths of Atomoxetine Capsules and Metronidazole Gel were successfully registered during the Reporting Period which are ready for launch and supply in Hong Kong. Eight other new products mostly in the central nervous system category have completed the development process and have been submitted to Department of Health for approval.

As of 30 September 2019, there are 103 products in our pipeline, 48 items have been approved for registration, 8 of them have been submitted for registration, 27 items have finished the development stage and are under stability study, plus 20 items are currently under development. Within the Reported Period, 7 new items have been added to the pipeline.

Collaborative Projects for Innovative Technologies in Progress

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

Pursuant to the finalisation of intellectual property transfer and licensing agreement with the target company for the collaborative project, task plan for the establishment of accreditation facilities, multi-center clinical trials, regulatory registration and product commercialisation in Hong Kong and other major markets has been carried out according to the designated time frame.

The multi-center trials covering Japan, Korea, United Kingdom, France, China and Hong Kong are being undertaken at different stages with a substantial amount of test samples progressively received from the trial centers for the laboratory test method and home-based test kit application studies. The manufacturing facilities for the newly designed home-based diagnostic kit will be ready for accreditation by end of 2019. This innovative home-based screening device for Prostate Cancer will be targeted for the market roll-out with commercial launch planned for Hong Kong and Macau in 12-18 months' time.

This technology can provide a fast and convenient option to verify the results of the "gold standard" test on prostate cancer screening, i.e. blood prostate-specific antigen (PSA) level, with the benefits of better patient experiences and minimisation of the high rate of falsely positive PSA result, thus the unnecessary prostate biopsy procedures. This innovative technology has garnered the accolade of Gold Medal at the 47th International Exhibition of Inventions of Geneva 2019.

Newly Formed Collaboration Project with Hong Kong Institute of Biotechnology (HKIB)

Funded under the Innovation and Technology Fund (ITF) by the government, this new collaborative project with HKIB aims at studying the technology on the usage of Confocal Raman Microscope on specified manufacturing processes for providing the capability to precisely control and manage the manufacturing process in making sure that the complicated formulation, ingredient distribution, and specified in-vivo efficacy can be achieved. Kicked started in the first quarter of 2019, this two-year project has now completed the stage of installation and qualification of the advanced and sophisticated Raman Microscope in the laboratory setting.

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

The US patent has been granted for the innovative Nano-compound which is applied for the detection of Beta Amyloid protein inside the brain for diagnosis of Alzheimer's diseases.

The product successfully commercialised under this nanotechnology for preclinical early Alzheimer disease detection was launched in August 2019, which has since then been applied by a university in Hong Kong for an Alzheimer's disease related research.

Promotion plans targeting at local and overseas research institutes will be drawn up for the new Nano-compound which is designed for use by research laboratories not equipped with MRI facility for providing a more efficient, cost saving and versatile animal test method in drug research and development for Alzheimer's disease, with greater sensitivity and resolution for the Beta Amyloid protein detection when compared with other available tests in the market.

Other Strategic Investment

The Group has forged an avenue for a commercial entry into the biosimilar sector in a strategic collaboration with Shanghai Henlius Biotech, Inc. ("Henlius") which holds a leading position in the research and development of biosimilar products and was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited in September 2019 (Stock code: 2696). The Group made an investment of USD15.0 million on Henlius in December 2017 and the carrying value of it under Other Financial Assets of the Group has been increased to HK$212.7 million as at 30 September 2019. Under the collaboration, the Group has an exclusive right to develop, use, sell, offer for sale, import, export and commercialise one of Henlius' products, namely Trastuzumab which is for use in metastatic breast cancer. The product is in its third (last) stage of clinical trial being conducted in Europe.

Acquisition and Redemption of Convertible Notes

Further Acquisition of 43% Equity Interest in Orizen Capital Limited

On 6 August 2019, the Group further acquired 43% equity interest of Orizen Capital Limited ("Orizen") and its subsidiary at a total consideration of HK$113.4 million, subsequent to the acquisition of 45% equity interest in Orizen on 19 July 2018. This acquisition represents a compelling opportunity to accelerate the Group's strategy in enhancing the portfolio of its proprietary Chinese medicine business and lays the foundation to create a leading branded Chinese medicine business which will be well-positioned to deliver strong sales, cash-flow and sustainable earnings growth for the Group. Synergies are expected to generate from the complementary basis of the acquired business to fuel the growth of the Group's proprietary Chinese medicine businesses.

Full Redemption of HK$500 million Convertible Notes

The convertible notes in an aggregate principal amount of HK$500 million which carried a coupon interest rate of 3.5% p.a. were issued by the Company on 3 October 2017 and were supposed to be due in October 2020 (the "Convertible Notes").

The Company has redeemed early the Convertible Notes in full during the Reporting Period via bank facilities at a lower interest rate and there were no outstanding Convertible Notes as at 30 September 2019. The early redemption of the Convertible Notes allowed saving of interest expenses as well as amortisation costs arising from the Convertible Notes.

Remuneration Policy

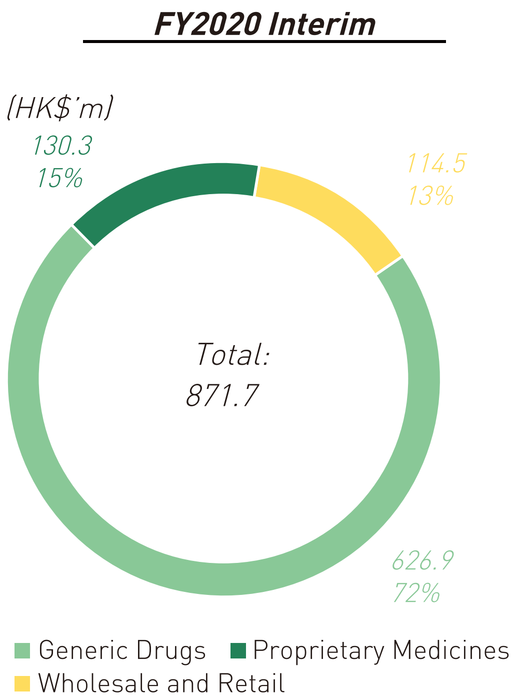
As of 30 September 2019, the Group had a total of 1,911 employees (1,803 employees as at 30 September 2018). For the Reporting Period, the total staff costs of the Group was HK$225.3 million, compared to HK$204.7 million for the six months ended 30 September 2018 due to growth and expansion under the strategic business developments of the Group. All the Group's employees have entered into standard employment contracts with the Group. Remuneration packages for the Group's employees in general comprise one or more of the following elements: basic salary, productivity-related incentives and work performance 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 taken into consideration when assessing salary adjustments, bonus awards, promotion, staff development plan and training needs. The Group provides various benefit schemes to its employees including annual leave entitlement, mandatory provident fund, group medical insurance and life insurance. A workers union has been established for the Group's employees in China according to local labour laws. As of 30 September 2019, the Group has not experienced any strikes or any labour disputes with its employees which would have or likely to have a material impact on its business.

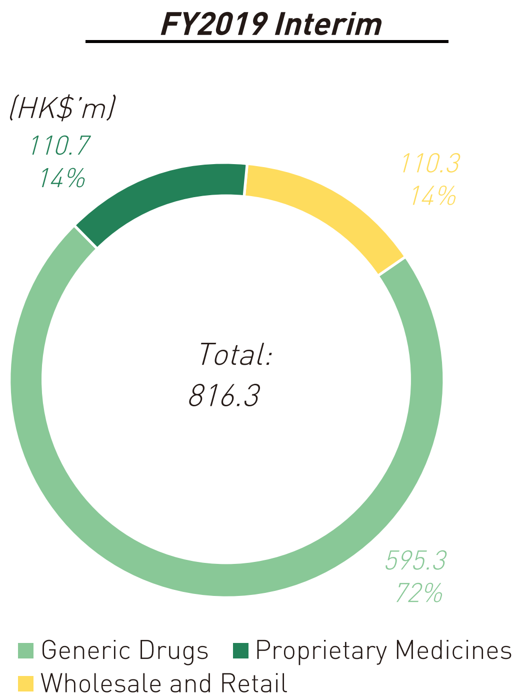
The Group places high values on recruiting, developing and retaining its employees. It maintains high recruitment standards, provides competitive compensation and benefit packages to attract and retain talents. The Group also emphasizes on training and developing employees. In addition to different skill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





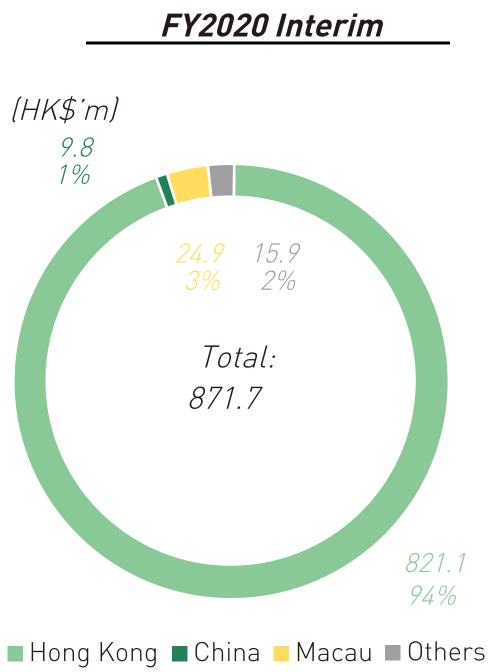
The increase in revenue of HK$55.4 million or 6.8% compared to FY2019 Interim was contributed by the increase in revenue of HK$31.6 million, HK$19.6 million and HK$4.2 million in Generic Drugs, Proprietary Medicines as well as Wholesale and Retail segments respectively. Revenue split of the three segments was at the proportion of 72%, 15% and 13% respectively.

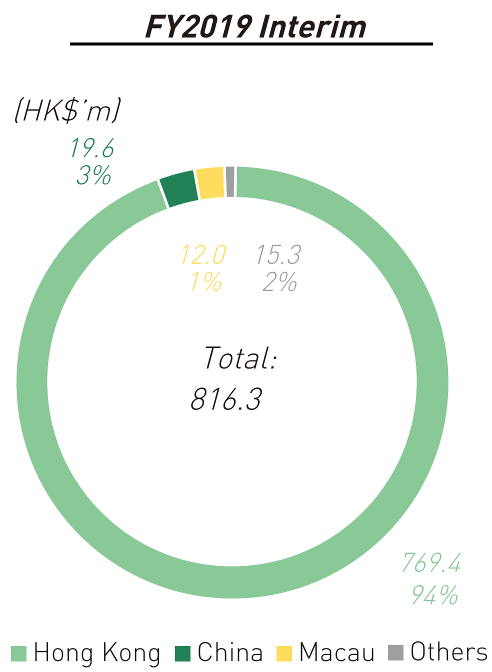
In the Generic Drugs segment, the increase in revenue reflected mainly a moderate business growth in the self-manufactured generic drugs augmented with revenue from existing and newly in-licensed products. The growth was mainly attributable to expanded product offerings of the Group's broad and targeted portfolio, along with the exacerbating healthcare demands resulted from aging population and prevalence of chronic diseases.

In the Proprietary Medicines segment, the increase in revenue was mainly resulted from the inclusion of newly acquired subsidiaries engaged in the proprietary Chinese medicine business coupled with a promising performance for Group's Proprietary Medicines brands such as Ho Chai Kung.

Despite the overall wholesale and retail market in Hong Kong has been facing a very stressful situation since the occurrence of social unrest in June 2019 during the Reporting Period, the Group's Wholesale and Retail segment has still recorded a growth of HK$4.2 million or 3.8% as compared to same period last year. The Company expects more challenges and uncertainties ahead and therefore will study and contemplate various means of strategic deployment in a sensible manner.

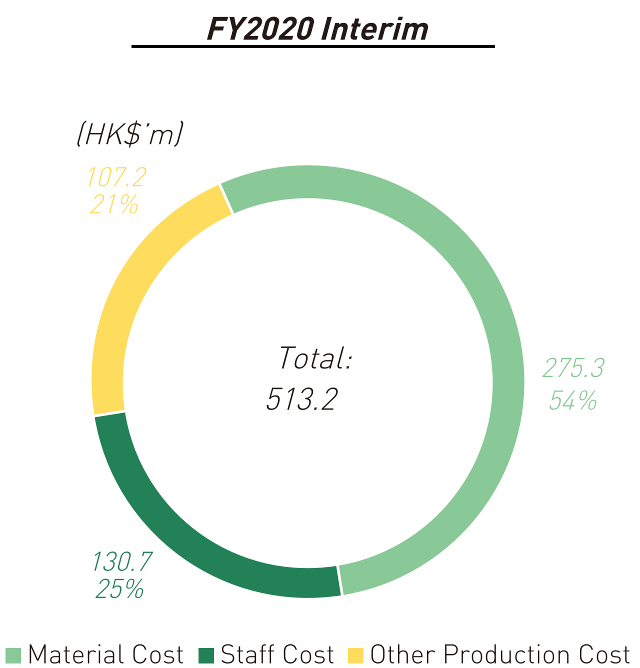
Revenue by Geographic Location

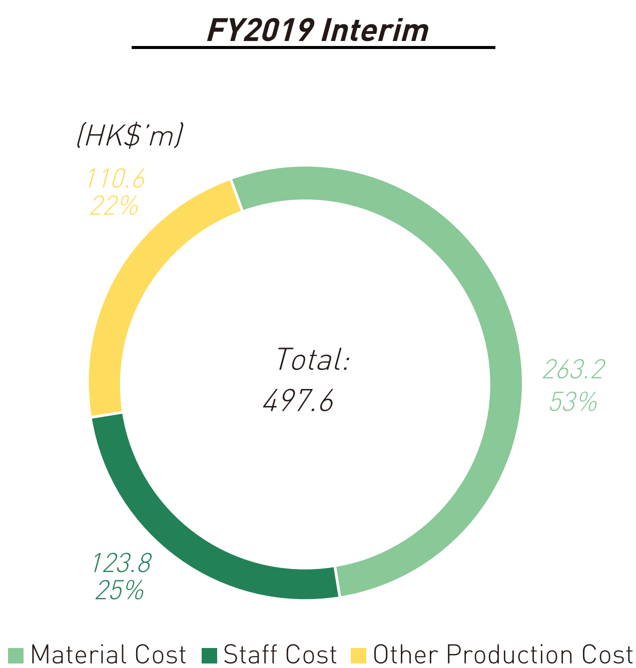




Hong Kong continued to be the major revenue stream representing 94% of the total revenue and contributed an increase in revenue of HK$51.7 million. The revenue in China decreased by HK$9.8 million or 50.0%, mainly due to the change of new distributors for Po Chai Pills and Flying Eagle Woodlok Oil with effect from January 2020 and therefore supply and sales to the current distributors have been stopped during the Reporting Period. Others represented other overseas markets and its slight decrease of HK$0.6 million was mainly due to the decrease in sales in North America, which has been offset partially by the increase in other Asian markets like Singapore and Taiwan.

Cost of Sales



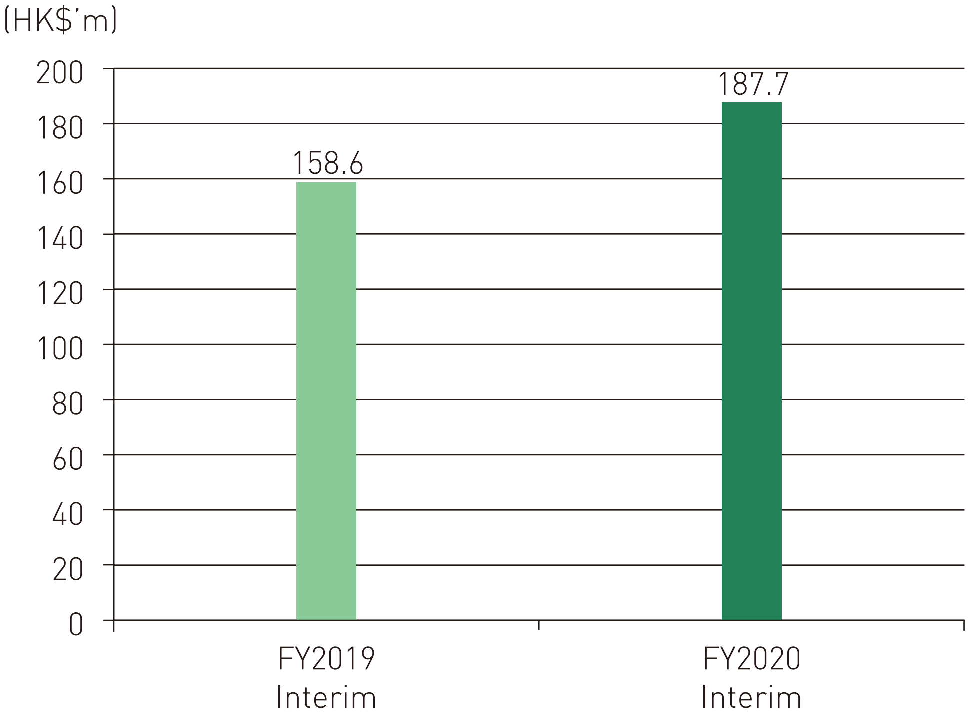


Material cost continued to be the major component which contributed to approximately 54% of the total cost of sales. The increase in cost of sales of HK$12.1 million or 4.6% primarily is in line with the overall sales growth of the Group.

The increase in staff cost of HK$6.9 million or by 5.6% primarily reflected the general increase in number of headcounts as a result of the Group's business expansion.

The slight decline in other production cost reflected the continuous decrease in production overheads as a consequence of the implementation of effective optimization program and cost control measures during the Reporting Period.

Profit from Operations



The profit from operations rose from HK$158.6 million to HK$187.7 million by HK$29.1 million or 18.3%. The enhancement in the profit from operations was principally contributed by the increase in gross profit of HK$39.8 million, and the fair value gain on the early redemption of the Convertible Notes and investment properties of HK$8.2 million and HK$6.9 million respectively, which was offset partially by the increase in selling and distribution expenses and administrative and other operating expenses by HK$13.9 million and HK$15.6 million respectively.

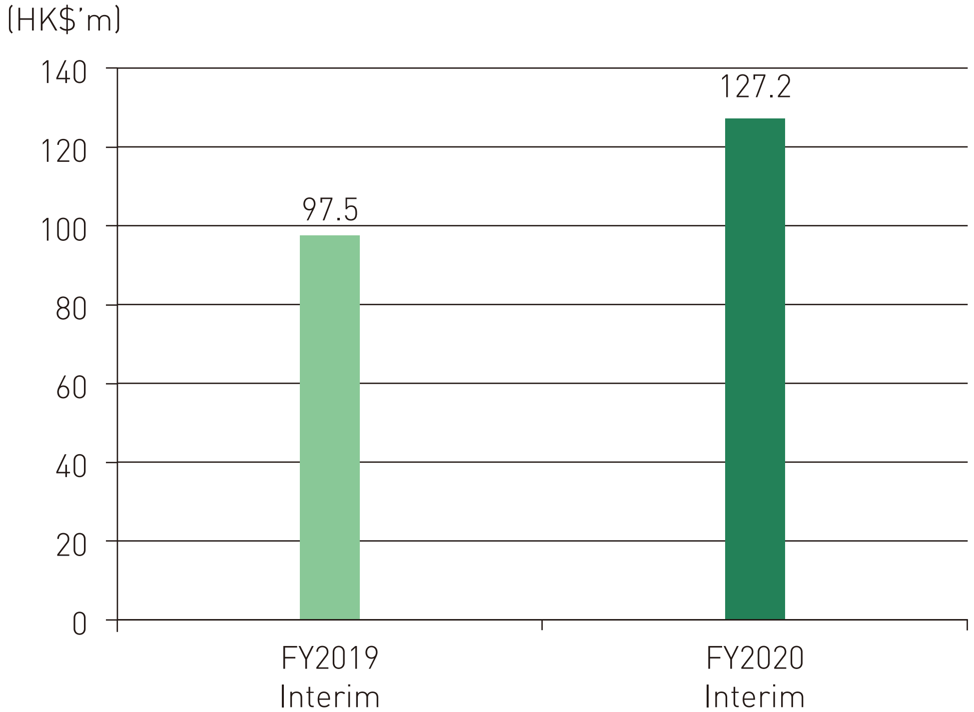
Finance Costs

The decrease in finance costs was mainly attributable to the saving of interest expenses as well as the reduction of the amortisation costs resulted from the early redemption of the Convertible Notes during the Reporting Period, which was offset partially by the additional finance costs reported as a result of the adoption of HKFRS 16 during the Reporting Period.

Income Tax

The increase in income tax principally reflected the higher profit before taxation generated. The decrease in effective tax rate was due to the decrease in the non-tax deductible finance costs arising from the Convertible Notes which were redeemed during the Reporting Period.

Profit Attributable to Shareholders



The increase in profit attributable to shareholders reflected the increase in profit from operation and the reduction of finance costs. The profit attributable to shareholders increased by HK$29.7 million or by 30.5% to HK$127.2 million.

Assets

Other Property, Plant and Equipment

The increase in other property, plant and equipment principally reflected the additions of HK$38.9 million and the impact of the adoption of HKFRS 16 amounting to HK$77.8 million, which was offset partially by the depreciation of HK$70.9 million during the Reporting Period.

Intangible Assets

The increase in intangible assets was principally attributable to the additions of HK$274.0 million mainly arising from the acquisitions of subsidiaries engaged in the proprietary Chinese medicine business, which was offset partially by the amortisation of HK$14.6 million during the Reporting Period.

Inventories

The increase in inventories was mainly attributable to the overall sales increase and the acquisition of subsidiaries engaged in the proprietary Chinese medicine business.

Cash and Cash Equivalents

Approximately 92.4% of cash and cash equivalents as at 30 September 2019 were denominated in Hong Kong dollars (as at 31 March 2019: 95.6%), while the remaining balance was denominated in United Stated dollars, Renminbi, Taiwan dollars and Singapore dollars.

Liabilities

Bank Loans

The increase in bank loans from HK$829.6 million as at 31 March 2019 to HK$1,478.1 million as at 30 September 2019 mainly represented the additions of bank loans which include HK$500 million for early redemption of the Convertible Notes during the Reporting Period.

As at 30 September 2019 and 31 March 2019, all the bank loans of the Group were denominated in Hong Kong dollars.

Use of Proceeds

IPO 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 30 September 2019:

	Proposed application HK$'000	Actual usage up to 30 September 2019 HK$'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	**69,554**
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	**41,705**
Establishment of a new joint R&D centre with HKIB	10,000	**3,307**
Marketing and advertising	83,465	**70,848**
General working capital	69,554	**69,554**
	695,540	**546,199**

The net proceeds of HK$695,540,000 were used, or are proposed to be used, in accordance with the intentions previously disclosed by our Company.

Proceeds from issuance of the Convertible Notes

Net proceeds of HK$490,352,000 were raised from the issuance of the 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 30 September 2019.

	Proposed application HK$'000	Actual usage up to 30 September 2019 HK$'000
Funding potential mergers and acquisitions as well as forming strategic alliances in the Asia Pacific region (Note)	411,352	**370,681**
Supporting in-licensing and direct investment on technologically-oriented bio-pharmaceutical projects	79,000	**78,453**
	490,352	**449,134**

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.

Proceeds from Issuance of New Shares

Net proceeds of HK$411,658,000 were raised from the issuance of shares to Yunnan Baiyao Holdings Company Limited (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 30 September 2019:

	Proposed application HK$'000	Actual usage up to 30 September 2019 HK$'000
Merger and acquisitions, strategic alliances and in-licensing of products	205,829	**26,780**
Acquisition, expansion and upgrading of operating facilities	164,663	**164,663**
General working capital	41,166	**41,166**
	411,658	**232,609**

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 practice. The solid capital structure and financial strength continue to provide a solid foundation for the Group's future business development as well mergers and acquisitions.

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

CHARGE ON GROUP ASSETS

The carrying value of assets pledged against bank loans decreased slightly from HK$871.6 million as at 31 March 2019 to HK$864.0 million as at 30 September 2019.

NET GEARING RATIO

The net gearing ratio of the Group (bank loans and the Convertible Notes less cash and cash equivalents, divided by total equity multiplied by 100%) increased from 24.8% as of 31 March 2019 to 27.8% as of 30 September 2019. The increase in net gearing ratio was attributable to the additions of bank loans in 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 30 September 2019, the Group did not have any significant contingent liabilities.

NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

A joint venture, which is 50% owned by the Group, has entered a sale and purchase agreement with an independent third party to acquire a company which owns certain production facilities, for both generic drugs and proprietary Chinese medicines, as well as relevant product licenses in Hong Kong at an investment sum of approximately HK$89,000,000 during the Reporting Period and the acquisition has been completed on 9 October 2019.

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. While the Group has taken out product liability insurance, the insured amount may not be sufficient to cover all damages claimed. The Group has a designated production and quality assurance team to monitor product quality in each plant to ensure they are in compliance with respective specifications.

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

OTHER INFORMATION

CORPORATE GOVERNANCE HIGHLIGHTS

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

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

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

REVIEW OF INTERIM RESULTS

The interim results for the six months ended 30 September 2019 are unaudited, but have been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included on page 27.

The Audit Committee, together with management of the Company, has also reviewed the interim results for the six months ended 30 September 2019.

INTERIM DIVIDEND

The Board recommends a payment of an interim dividend per ordinary share for the six months ended 30 September 2019 of HK2.0 cents for the total amount of approximately HK$40.3 million (six months ended 30 September 2018: HK1.5 cents). The interim dividend will be paid on 23 December 2019 (Monday) to shareholders whose names appear on the register of members of the Company on 11 December 2019 (Wednesday), the record date. The details of interim dividend of the Group are set out in note 9 of the unaudited interim financial report.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of shareholders of the Company to receive the interim dividend, the register of members of the Company will be closed from 10 December 2019 (Tuesday) to 11 December 2019 (Wednesday), both days inclusive, during which period no transfer of shares of the Company will be registered. All transfer documents, accompanied by the relevant share certificate, shall be lodged with the Company's Hong Kong Branch Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 9 December 2019 (Monday).

GENERAL DISCLOSURE PURSUANT TO LISTING RULES

Pursuant to Rule 13.27 of the Listing Rules, the Company discloses the following information:

On 6 September 2017, the Company entered into the subscription agreements with each of the two subscribers thereby the subscribers agreed to subscribe for the 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.

The Group has fully redeemed principal amounts of HK$500 million of the Convertible Notes during the Reporting Period. There was no outstanding Convertible Notes as at 30 September 2019.

For details, please refer to the announcements of the Company dated 6 September 2017, 3 October 2017, 23 July 2019 and 28 August 2019.

CHANGE OF INFORMATION ON DIRECTORS

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

(a) **Professor Wong Chi Kei, Ian**, an independent non-executive Director of the Company, has been appointed as a Member of the Pharmacy and Poisons Board of Hong Kong between 2019 and 2021.

(b) **Mr. Yim Chun Leung**, an executive Director of the Company, has been appointed as the person authorised to accept service of process and notices on behalf of the Company in Hong Kong on 26 November 2019.

(c) **Professor Lam Sing Kwong, Simon**, a non-executive Director, has entered into a letter of appointment with the Company for a renewed term of three years from 30 August 2019.

(d) **Dr. Lam Kwing Tong, Alan**, an independent non-executive Director, has entered into a letter of appointment with the Company for a renewed term of three years from 30 August 2019.

(e) **Mr. Young Chun Man, Kenneth**, an independent non-executive Director, has entered into a letter of appointment with the Company for a renewed term of three years from 30 August 2019.

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

As at 30 September 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, 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]	Beneficial owner Interests in controlled corporation Settlor of trusts Beneficiary of trusts	1,289,826,000	63.99%	Long position
Mr. Yim Chun Leung	Beneficial owner	27,500,000	1.36%	Long position
Ms. Pun Yue Wai	Beneficial owner	2,210,000	0.10%	Long position
Dr. Lam Kwing Tong, Alan	Interests of spouse	470,000	0.02%	Long position

Note:

(1) Mr. Sum is the beneficial owner of 2,000,000 shares in the Company. Queenshill, a company wholly-owned by Mr. Sum, held 280,092,000 shares in the Company. By virtue of the SFO, Mr. Sum is deemed to be interested in the 280,092,000 shares held by Queenshill. 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.

(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 30 September 2019, the following 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	Approximate percentage of issued voting shares
Mr. Yim Chun Leung	Beneficial owner	9,000,000	0.44%
Ms. Pun Yue Wai	Beneficial owner	3,000,000	0.14%

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

These interests in share options represented long positions in the underlying shares in respect of physically settled derivatives of the Company. Interests of the Directors, Mr. Yim Chun Leung and Ms. Pun Yue Wai, set out in this subsection (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 30 September 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 recorded in the register to be kept by the Company pursuant to section 352 of the SFO, or which were required, pursuant to section 347 of the SFO and the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 30 September 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:

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	280,092,000	13.89%	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]	Interest in controlled corporation	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, 289,826,000	63.99%	Long position
Yunnan Baiyao Group[4]	Beneficial owner	200,000,000	9.92%	Long position

Notes:

(1) Mr. Sum is the sole shareholder of Queenshill. By virtue of the SFO, Mr. Sum is deemed to be interested in the 280,092,000 shares held by Queenshill.

(2) Kingshill and Longjin are parties acting in concert pursuant to the Deed of Acting in Concert and hence each of them is deemed to be interested in the Shares held by each others. Please refer to the section headed "Relationship with our Controlling Shareholders" of the Prospectus for further details. Kingshill is wholly-owned by the 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 Holdings Company Limited* (雲南白藥控股有限公司) ("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. Yunnan Baiyao was merged into and absorbed by Yunnan Baiyao Group in accordance with the applicable laws of the PRC and all assets and liabilities of Yunnan Baiyao was assumed by Yunnan Baiyao Group in June 2019. For details, please refer to the announcement of the Company dated 8 May 2019.

* *For purpose of identification only.*

Save as disclosed above, as at 30 September 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.

SHARE OPTION SCHEME

The Share Option Scheme of the Company was adopted by shareholders of the Company on 30 August 2016. A summary of the Share Option Scheme is as follows:

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

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

The life of the Share Option Scheme is ten years commencing on 30 August 2016 and expiring on 29 August 2026. As at 30 September 2019, the maximum number of ordinary shares of the Company which may be issued upon exercise of all share options that may be granted under the Share Option Scheme was 138,000,000 shares representing approximately 6.85% of the issued shares of the Company as at the date of this interim report.

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

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

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

The subscription price shall be a price determined by the Directors but in any event shall be at least the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets on the date of offer; (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations 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 30 September 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 14,020,000 share options were lapsed and no share option had been exercised under the Share Option Scheme. Details of the movement in the share options under the Share Option Scheme during the Reporting Period and outstanding as at 30 September 2019 were as follows:

	Number of options outstanding at 1 April 2019	Number of options granted during the Reporting Period	Number of ordinary shares acquired upon exercise of options during the Reporting Period	Number of options lapsed or forfeited during the Reporting Period	Number of options cancelled during the Reporting Period	Number of options outstanding at 30 September 2019	Date granted	Exercise price per ordinary share	Exercisable period
Directors:									
Mr. Yim Chun Leung	9,000,000	–	–	–	–	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	3,000,000	–	–	–	–	3,000,000	30 June 2017	HK$2.06	from 1 October 2018 up to 30 September 2020 in two tranches
sub-total	12,000,000	–	–	–	–	12,000,000			
All other employees:	11,480,000	–	–	1,500,000	–	9,980,000	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	12,480,000	–	–	1,500,000	–	10,980,000			
Grand Total	24,480,000	–	–	1,500,000	–	22,980,000			

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.

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 should 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 30 September 2019, the Trustee has purchased 7,700,000 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.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the sections headed "Share Option Scheme" and "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.

Review Report to the Board of Directors

Review report to the board of directors of
Jacobson Pharma Corporation Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 28 to 50 which comprises the consolidated statement of financial position of Jacobson Pharma Corporation Limited (the "Company") as of 30 September 2019 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
26 November 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 September 2019 – unaudited (Expressed in Hong Kong dollars)

		Six months ended 30 September	
		2019	2018
	Note	**HK$'000**	HK$'000
Revenue	4	**871,686**	816,260
Cost of sales		**(513,169)**	(497,566)
Gross profit		**358,517**	318,694
Other net income	5	**24,112**	5,480
Selling and distribution expenses		**(97,084)**	(83,233)
Administrative and other operating expenses		**(97,852)**	(82,297)
Profit from operations		**187,693**	158,644
Finance costs	6(a)	**(30,537)**	(33,252)
Share of profits less losses of associates		**2,925**	1,819
Profit before taxation	6	**160,081**	127,211
Income tax	7	**(28,202)**	(23,835)
Profit for the period		**131,879**	103,376
Other comprehensive income for the period			
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		**(1,225)**	96,201
Item that may be reclassified subsequently to profit or loss, net of nil tax:			
Exchange differences on translation of financial statements of operations outside Hong Kong		**(1,017)**	(4,096)
Other comprehensive income for the period		**(2,242)**	92,105
Total comprehensive income for the period		**129,637**	195,481
Profit attributable to:			
Shareholders of the Company		**127,218**	97,531
Non-controlling interests		**4,661**	5,845
Profit for the period		**131,879**	103,376
Total comprehensive income attributable to:			
Shareholders of the Company		**124,976**	189,636
Non-controlling interests		**4,661**	5,845
Total comprehensive income for the period		**129,637**	195,481
		HK cents	HK cents
Earnings per share			
Basic and diluted	8	**6.32**	5.28

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

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

The notes on pages 32 to 50 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 September 2019 – unaudited (Expressed in Hong Kong dollars)

	Note	As at 30 September 2019 HK$'000	As at 31 March 2019 HK$'000
Non-current assets			
Investment properties	10	**363,700**	356,800
Other property, plant and equipment	3, 10	**1,147,707**	1,103,919
Intangible assets		**1,341,000**	1,073,487
Interest in associates		**24,300**	148,752
Interest in a joint venture		**8,892**	–
Other non-current assets		**98,728**	72,333
Other financial assets	12	**290,273**	255,320
Deferred tax assets		**5,611**	5,976
		3,280,211	3,016,587
Current assets			
Inventories		**375,713**	333,831
Trade and other receivables	11	**274,630**	277,291
Current tax recoverable		**719**	3,043
Other financial assets	12	**7,780**	–
Cash and cash equivalents	13	**718,206**	629,842
		1,377,048	1,244,007
Current liabilities			
Trade and other payables	14	**140,685**	116,932
Bank loans		**750,665**	458,399
Lease liabilities	3(c)	**43,908**	184
Convertible notes	15	**–**	466,960
Current tax payable		**39,523**	11,896
		974,781	1,054,371
Net current assets		**402,267**	189,636
Total assets less current liabilities		**3,682,478**	3,206,223
Non-current liabilities			
Banks loans		**727,456**	371,247
Lease liabilities	3(c)	**36,063**	476
Deferred tax liabilities		**183,601**	147,362
		947,120	519,085
NET ASSETS		**2,735,358**	2,687,138
CAPITAL AND RESERVES			
Share capital	16	**20,079**	20,156
Reserves		**2,646,819**	2,627,012
Total equity attributable to shareholders of the Company		**2,666,898**	2,647,168
Non-controlling interests		**68,460**	39,970
TOTAL EQUITY		**2,735,358**	2,687,138

The notes on pages 32 to 50 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 September 2019 – unaudited (Expressed in Hong Kong dollars)

		Attributable to shareholders of the Company									
	Note	Share capital HK$'000	Share premium HK$'000	Shares for Share Award Scheme HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Fair value reserve (non-recycling) HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
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 period		–	–	–	–	–	–	97,531	97,531	5,845	103,376
Other comprehensive income		–	–	–	–	(4,096)	96,201	–	92,105	–	92,105
Total comprehensive income for the period		–	–	–	–	(4,096)	96,201	97,531	189,636	5,845	195,481
Issuance of new shares	16(a)	2,000	409,658	–	–	–	–	–	411,658	–	411,658
Dividend paid	9(b)	–	–	–	–	–	–	(58,453)	(58,453)	–	(58,453)
Equity settled share-based transactions	16(b)	–	–	–	3,812	–	–	–	3,812	–	3,812
At 30 September 2018		20,156	1,126,716	–	156,580	3,491	96,201	1,119,271	2,522,415	38,058	2,560,473
At 1 April 2019		**20,156**	**1,126,716**	**–**	**154,497**	**3,911**	**96,201**	**1,245,687**	**2,647,168**	**39,970**	**2,687,138**
Impact of initial application of HKFRS 16	3	**–**	**–**	**–**	**–**	**–**	**–**	**(1,406)**	**(1,406)**	**–**	**(1,406)**
Adjusted balance at 1 April 2019		**20,156**	**1,126,716**	**–**	**154,497**	**3,911**	**96,201**	**1,244,281**	**2,645,762**	**39,970**	**2,685,732**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**127,218**	**127,218**	**4,661**	**131,879**
Other comprehensive income		**–**	**–**	**–**	**–**	**(1,017)**	**(1,225)**	**–**	**(2,242)**	**–**	**(2,242)**
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**(1,017)**	**(1,225)**	**127,218**	**124,976**	**4,661**	**129,637**
Dividend paid	9(b)	**–**	**–**	**–**	**–**	**–**	**–**	**(60,265)**	**(60,265)**	**–**	**(60,265)**
Shares held for Share Award Scheme	16(a)	**(77)**	**–**	**(11,525)**	**–**	**–**	**–**	**–**	**(11,602)**	**–**	**(11,602)**
Equity settled share-based transactions	16(b)	**–**	**–**	**–**	**712**	**–**	**–**	**797**	**1,509**	**–**	**1,509**
Redemption of convertible notes	15	**–**	**–**	**–**	**(52,470)**	**–**	**–**	**18,986**	**(33,484)**	**–**	**(33,484)**
Acquisitions of subsidiaries and increase in shareholding in subsidiaries		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**23,825**	**23,825**
Incorporation of subsidiaries with non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**4**
At 30 September 2019		**20,079**	**1,126,716**	**(11,525)**	**102,739**	**2,894**	**94,976**	**1,331,019**	**2,666,898**	**68,460**	**2,735,358**

The notes on pages 32 to 50 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2019 – unaudited (Expressed in Hong Kong dollars)

		Six months ended 30 September	
		2019	2018
	Note	**HK$'000**	HK$'000
Operating activities			
Cash generated from operations		**256,856**	208,948
Income tax refunded		**355**	243
Net cash generated from operating activities		**257,211**	209,191
Investing activities			
Payment for purchase of property, plant and equipment, investment properties and intangible assets		**(44,719)**	(167,853)
Proceeds from disposals of property, plant and equipment		**776**	556
Net cash outflow from acquisition of subsidiaries under business combination	17	**(108,124)**	–
Payment for purchase of other financial assets		**(43,958)**	(4,500)
Payment for acquisition of associates		**–**	(137,467)
Increase in non-current prepayments		**–**	(10,000)
Payment for investment in a joint venture		**(8,892)**	–
Dividends received from an associate		**8,460**	–
Other cash flows arising from investing activities		**996**	1,265
Net cash used in investing activities		**(195,461)**	(317,999)
Financing activities			
Capital element of lease rentals paid		**(28,032)**	(92)
Interest element of lease rentals paid		**(1,295)**	(23)
Proceeds from bank loans		**1,002,000**	282,740
Repayment of bank loans		**(353,525)**	(367,701)
Proceeds from shares issued	16(a)	**–**	411,658
Dividends paid	9(b)	**(60,265)**	(58,453)
Redemption of convertible notes	15	**(500,000)**	–
Payments for shares held for Share Award Scheme		**(11,602)**	–
Other cash flows arising from financing activities		**(21,462)**	(23,473)
Net cash generated from financing activities		**25,819**	244,656
Net increase in cash and cash equivalents		**87,569**	135,848
Cash and cash equivalents at 1 April	13	**629,842**	656,733
Effect of foreign exchange rate changes		**795**	(1,179)
Cash and cash equivalents at 30 September	13	**718,206**	791,402

The notes on pages 32 to 50 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

1 CORPORATE INFORMATION

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

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 26 November 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2019, except for the accounting policy changes that are expected to be reflected in the consolidated financial statements for the year ending 31 March 2020. Details of any changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018/19 annual financial statements. The condensed consolidated interim financial statements and notes thereto do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 27.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases of low value assets. The lessor accounting requirements brought forward from HKAS 17 are substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 April 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. For contracts entered into before 1 April 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 16, Leases (Continued)

(a) Changes in the accounting policies (Continued)

(ii) Lessee accounting (Continued)

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except that right-of-use assets that meet the definition of investment property are carried at fair value.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 March 2019. Consequentially, these leasehold investment properties continue to be carried at fair value.

(iv) Lessor accounting

The Group leases out the investment property as mentioned in paragraph (a)(iii) above. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

(b) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 April 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 April 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.3%.

To ease the transition to HKFRS 16, the Group applied the practical expedient of HKFRS 16 when measuring the lease liabilities at the date of initial application, by applying a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 16, Leases (Continued)

(b) Transitional impact (Continued)

The following table reconciles the operating lease commitments as disclosed in note 30 as at 31 March 2019 to the opening balance for lease liabilities recognised as at 1 April 2019:

	1 April 2019 HK$'000
Operating lease commitments at 31 March 2019	91,727
Less: commitments relating to leases contracted for but not yet commenced at 1 April 2019	(10,592)
Less: total future interest expenses	(2,572)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019	78,563
Add: finance lease liabilities recognised as at 31 March 2019	660
Total lease liabilities recognised at 1 April 2019	79,223

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at their carrying amount as if HKFRS 16 had been applied since the commencement dates of the leases, discounted at the Group's incremental borrowing rate at 1 April 2019. The lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at 1 April 2019. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 April 2019 of 3.3% per annum.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The Group presents right-of-use assets that do not meet the definition of investment property in 'other property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 March 2019 HK$'000	Capitalisation of operating lease contracts HK$'000	Carrying amount at 1 April 2019 HK$'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Other property, plant and equipment	1,103,919	77,817	1,181,736
Total non-current assets	3,016,587	77,817	3,094,404
Lease liabilities (current)	184	43,392	43,576
Current liabilities	1,054,371	43,392	1,097,763
Net current assets	189,636	(43,392)	146,244
Total assets less current liabilities	3,206,223	34,425	3,240,648
Lease liabilities (non-current)	476	35,831	36,307
Total non-current liabilities	519,085	35,831	554,916
Net assets	2,687,138	(1,406)	2,685,732

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 16, Leases (Continued)

(c) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the Reporting Period and at the date of transition to HKFRS 16 are as follows:

	At 30 September 2019		At 1 April 2019	
	Present value of the minimum lease payments HK$'000	**Total minimum lease payments HK$'000**	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	**43,908**	**45,717**	43,392	45,165
After 1 year but within 2 years	**27,624**	**28,262**	26,045	26,710
After 2 years but within 5 years	**8,439**	**8,552**	9,786	9,920
	36,063	**36,814**	35,831	36,630
	79,971	**82,531**	79,223	81,795
Less: total future interest expenses		**(2,560)**		(2,572)
Present value of lease liabilities		**79,971**		79,223

(d) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 April 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 16, Leases (Continued)

(d) Impact on the financial result, segment results and cash flows of the Group (Continued)

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result, segment results and cash flows for the six months ended 30 September 2019, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16 (A) HK$'000	Add back: HKFRS 16 depreciation and interest expense (B) HK$'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1) (C) HK$'000	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C) HK$'000	Compared to amounts reported for 2018 under HKAS 17 HK$'000
Financial result for the six months ended 30 September 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	187,693	27,561	(28,667)	186,587	158,644
Finance costs	(30,537)	1,295	–	(29,242)	(33,252)
Profit before taxation	160,081	28,856	(28,667)	160,270	127,211
Profit for the year	131,879	28,856	(28,667)	132,068	103,376
Reportable segment profit (adjusted EBITDA) for the six months ended 30 September 2019 (note 4(b)(i)) impacted by the adoption of HKFRS 16:					
– Generic drugs	198,745	–	(24,407)	174,338	164,700
– Proprietary medicines	52,695	–	(2,020)	50,675	43,031
– Wholesale and retail	4,889	–	(2,240)	2,649	4,344
– Total	256,329	–	(28,667)	227,662	212,075

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 16, Leases (Continued)

(d) Impact on the financial result, segment results and cash flows of the Group (Continued)

	2019			2018
	Amounts reported under HKFRS 16 (A) HK$'000	Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) (B) HK$'000	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) HK$'000	Compared to amounts reported for 2018 under HKAS 17 HK$'000
Line items in the condensed consolidated cash flow statement for the six months ended 30 September 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	**256,856**	**(28,667)**	**228,189**	208,948
Net cash generated from operating activities	**257,211**	**(28,667)**	**228,544**	209,191
Capital element of lease rentals paid	**(28,032)**	**27,372**	**(660)**	(92)
Interest element of lease rentals paid	**(1,295)**	**1,295**	**–**	(23)
Net cash generated from financing activities	**25,819**	**28,667**	**54,486**	244,656

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

(b) Segment reporting

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

- Generic Drugs: this segment develops, manufactures and distributes a host of off-patent medicine for various therapeutic use. Currently the activities in this regard are primarily carried out in Hong Kong.

- Proprietary Medicines: this segment develops, manufactures and distributes medicines. Currently the activities in this regard are primarily carried out in Hong Kong.

- Wholesale and Retail: this segment sells western and proprietary medicines in Hong Kong.

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

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including interest income and interest expenses and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group's earnings are further adjusted for 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.

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(i) Segment revenue and results

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

	Generic Drugs		Proprietary Medicines		Wholesale and Retail		Total	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	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	**626,867**	595,227	**130,340**	110,743	**114,479**	110,290	**871,686**	816,260
Inter-segment revenue	**907**	2,171	**2,663**	920	**–**	–	**3,570**	3,091
	627,774	597,398	**133,003**	111,663	**114,479**	110,290	**875,256**	819,351
Reportable segment profit (adjusted EBITDA)	**198,745**	164,700	**52,695**	43,031	**4,889**	4,344	**256,329**	212,075

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

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
Revenue		
Reportable segment revenue	**875,256**	819,351
Elimination of inter-segment revenue	**(3,570)**	(3,091)
Consolidated revenue	**871,686**	816,260
Profit		
Reportable segment profit	**256,329**	212,075
Elimination of inter-segment profit	**(361)**	(559)
Reportable segment profit derived from Group's external customers	**255,968**	211,516
Interest income from bank deposits	**2,767**	1,265
Fair value gain on investment properties	**6,900**	4,374
Depreciation and amortisation	**(86,165)**	(58,511)
Finance costs	**(30,537)**	(33,252)
Share of profits less losses of associates	**2,925**	1,819
Gain on redemption of convertible notes	**8,223**	–
Consolidated profit before taxation	**160,081**	127,211

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(iii) Geographic information

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

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
Revenue from external customers		
Hong Kong (place of domicile)	**821,132**	769,429
Mainland China	**9,846**	19,578
Macau	**24,850**	11,961
Singapore	**5,845**	5,357
Others	**10,013**	9,935
	871,686	816,260

The following table sets out information about the geographical location of the Group's other property, plant and equipment, investment properties, intangible assets, prepayment for purchase of non-current assets and interest in associates and a joint venture ("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 other property, plant and equipment 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 operations, in the case of interest in associates and a joint venture.

	As at 30 September 2019 HK$'000	As at 31 March 2019 HK$'000
Specified non-current assets		
Hong Kong (place of domicile)	**2,889,868**	2,657,643
Mainland China	**42,258**	44,936
Macau	**68**	86
Taiwan	**6,129**	6,447
Cambodia	**46,004**	46,179
	2,984,327	2,755,291

(iv) Information about major customers

For the six months ended 30 September 2019, the Group's customer base includes one customer of the Generic Drugs segment with whom transactions have exceeded 10% of the Group's revenue. Revenue from sales of generic drugs to this customer, including sales to entities which are known to the Group to be under common control amounted to HK$229,693,000 (six months ended 30 September 2018: HK$200,100,000).

5 OTHER NET INCOME

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
Commission income	**743**	555
Interest income from bank deposits	**2,767**	1,265
Net foreign exchange loss	**(535)**	(1,241)
Net loss on disposal of property, plant and equipment	**(44)**	(183)
Fair value gain on investment properties	**6,900**	4,374
Gain on redemption of convertible notes	**8,223**	–
Subcontracting income	**1,257**	–
Rental income	**2,944**	–
Others	**1,857**	710
	24,112	5,480

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
(a) Finance costs		
Interest on bank loans and other borrowings	**29,242**	33,229
Interest on lease liabilities	**1,295**	23
	30,537	33,252

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
(b) Other items		
Amortisation		
– leasehold land	**715**	725
– intangible assets	**14,578**	13,782
Depreciation	**70,872**	44,004
Write-down of inventories	**900**	1,201
Equity settled share-based transactions	**1,509**	3,812

7 INCOME TAX

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
Current tax	**27,651**	23,908
Deferred taxation	**551**	(73)
	28,202	23,835

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 30 September 2018: 16.5%) to the six months ended 30 September 2019. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

8 EARNINGS PER SHARE

(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$127,218,000 (six months ended 30 September 2018: HK$97,531,000) and the weighted average of 2,012,445,000 ordinary shares (six months ended 30 September 2018: 1,846,226,000 shares) in issue during the Reporting Period, calculated as follows:

	Six months ended 30 September	
	2019	2018
	'000	'000
Shares of the Company issued at the beginning of the period	**2,015,625**	1,815,625
Effect of shares issued during the period	**–**	30,601
Weighted average number of shares held for Share Award Scheme	**(3,180)**	–
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme during the period	**2,012,445**	1,846,226

(b) Diluted earnings per share

Diluted earnings per share equals to basic earnings per share for the six months ended 30 September 2019 and 2018 because the potential ordinary shares outstanding were anti-dilutive.

9 DIVIDENDS

(a) Dividend payable to shareholders attributable to the interim period

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
Interim dividend declared and paid after the interim period of HK2.0 cents per share (six months ended 30 September 2018: HK1.5 cents per share)	**40,313**	30,234

The interim dividend has not been recognised as a liability at the end of the Reporting Period.

(b) Dividend payable to shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK3.0 cents per share (six months ended 30 September 2018: HK2.9 cents per share)	**60,469**	58,453
Less: Dividend of shares held by Share Award Scheme at 30 September 2019	**(204)**	–
	60,265	58,453

10 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

As discussed in note 3, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 April 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17 and to reclassify leasehold land to right-of-use assets which were included in other property, plant and equipment. In addition, the depreciated carrying amount of the finance leased assets which were previously included in other property, plant and equipment is also identified as right-of-use assets. Further details on the net book value of the Group's right-of-use assets are set out in note 3.

During the six months ended 30 September 2019, the Group entered into a number of lease agreements for use of warehouses and office buildings, and therefore recognised the additions to right-of-use assets of HK$30,230,000.

(b) Acquisitions and disposals of other property, plant and equipment

During the six months ended 30 September 2019, the Group acquired items of leasehold improvements, plant and machinery, motor vehicles, and furniture, fixtures and office equipment with a cost of HK$11,941,000 (six months ended 30 September 2018: HK$28,805,000). Items of plant and machinery, motor vehicles, and furniture, fixtures and office equipment with a net book value of HK$820,000 were disposed of during the six months ended 30 September 2019 (six months ended 30 September 2018: HK$739,000), resulting in a loss on disposal of HK$44,000 (six months ended 30 September 2018: HK$183,000).

(c) Investment properties

During the six months ended 30 September 2018, the Group acquired investment properties at a cost of HK$128,026,000. Investment properties of HK$62,000,000 were also transferred to property, plant and equipment following a change in use to self occupation during the six months ended 30 September 2019.

The valuations of investment properties at fair value as at 30 September 2019 were performed by the Group's independent valuer using the market comparison method. As a result of the valuation, a net gain of HK$6,900,000 (six months ended 30 September 2018: HK$4,374,000) has been recognised in the consolidated statement of profit or loss and other comprehensive income for the six months ended 30 September 2019.

11 TRADE AND OTHER RECEIVABLES

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

	As at 30 September 2019 HK$'000	As at 31 March 2019 HK$'000
Less than 1 month	**134,002**	141,841
1 to 6 months	**60,794**	66,096
Over 6 months	**5,093**	6,248
Trade receivables	**199,889**	214,185
Other receivables	**5,686**	2,526
Contingent consideration receivable*	**–**	1,084
Deposits and prepayments	**69,055**	59,496
	274,630	277,291

* Pursuant to the agreement in connection with the acquisition of 70% equity interest in Hong Ning Hong Limited in April 2017, the seller guaranteed to the Group that the 2018 audited net profit after tax ("Net Profit") and 2019 Net Profit shall each be no less than HK$8,000,000 ("Annual Guaranteed Profit"). 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. On 9 August 2019, the seller paid the shortfall amount of HK$1,084,000 to the Group.

12 OTHER FINANCIAL ASSETS

	As at 30 September 2019 HK$'000	As at 31 March 2019 HK$'000
Equity securities designated at FVOCI (non-recycling)		
– Unlisted	**70,541**	248,419
– Listed in Hong Kong	**212,694**	–
Financial assets measured at FVPL		
– Unlisted	**7,038**	6,901
– Listed outside Hong Kong	**7,780**	–
	298,053	255,320

13 CASH AND CASH EQUIVALENTS

	As at 30 September 2019 HK$'000	As at 31 March 2019 HK$'000
Short-term deposits with banks	**4,500**	100,529
Cash at bank and in hand	**713,706**	529,313
	718,206	629,842

14 TRADE AND OTHER PAYABLES

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 30 September 2019 HK$'000	As at 31 March 2019 HK$'000
Less than 1 month	**28,441**	24,085
1 to 6 months	**23,475**	16,290
Over 6 months	**365**	83
Trade payables	**52,281**	40,458
Salary and bonus payables	**53,279**	38,533
Payables and accruals for additions of property, plant and equipment	**1,622**	2,638
Other payables and accruals	**28,421**	29,965
Contract liabilities	**5,082**	5,338
	140,685	116,932

15 CONVERTIBLE NOTES

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 Group has fully redeemed principal amounts of HK$500,000,000 of convertible notes during the six months ended 30 September 2019. There were no outstanding convertible notes as at 30 September 2019.

16 CAPITAL AND RESERVES

(a) Share capital

	Number of shares '000	**Amount** HK$'000
Issued ordinary shares of HK$0.01 each:		
At 1 April 2018	1,815,625	18,156
Issue of ordinary shares	200,000	2,000
At 31 March 2019 and 1 April 2019	**2,015,625**	**20,156**
Shares held for Share Award Scheme (note 16(b))	**(7,700)**	**(77)**
At 30 September 2019	**2,007,925**	**20,079**

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.

16 CAPITAL AND RESERVES (CONTINUED)

(b) Equity settled share-based transactions

(i) Share Award Scheme

On 16 October 2018, the Share Award Scheme was adopted by the Company. Pursuant to the Share Award Scheme, the Share Award Committee 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 Share Award 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 Share Award 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 in 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 of an independent non-executive director of the Company).

During the six months ended 30 September 2019, the Share Award Scheme acquired 7,700,000 shares (six months ended 30 September 2018: Nil) through purchases on the open market. The total amount paid to acquire the shares during the six months ended 30 September 2019 was HK$11,602,000 (six months ended 30 September 2018: HK$Nil).

There was no share award granted under the Share Award Scheme during the six months ended 30 September 2019.

(ii) Share Option Scheme

On 30 June 2017, 36,000,000 share options were granted at a consideration of HK$1 to certain employees, including certain executive directors of the Company and certain directors of subsidiaries of the Company, under the Company's employee share option scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options are valid and exercisable within a validity period from 1 October 2018 and 2019 up to 30 September 2018, 2019 and 2020 respectively in two tranches. The exercise price is HK$2.06 per share, being the closing price of the shares of the Company as stated in The Stock Exchange of Hong Kong Limited's daily quotations sheets on the date of grant. 1,500,000 options were lapsed during the six months ended 30 September 2019 (six months ended 30 September 2018: 500,000).

On 18 October 2017, 1,000,000 share options granted at a consideration of HK$1 to one employee, under the Company's employee share option scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options 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. The exercise price is HK$2.13 per share, being the average of the closing prices of the shares of the Company as stated in The Stock Exchange of Hong Kong Limited's daily quotations sheets for the five business days immediately preceding the date of grant. No options were exercised during the six months ended 30 September 2019 (six months ended 30 September 2018: Nil).

17 BUSINESS COMBINATION

Step acquisition of Orizen Capital Limited and its subsidiary

On 22 July 2019, Sampan Development Limited ("Sampan"), a wholly-owned subsidiary of the Group, entered into a sale and purchase agreement (the "SPA") with independent third parties ("the Vendors"), pursuant to which Sampan conditionally agreed to purchase and the Vendors conditionally agreed to sell, the 43% equity interest in Orizen Capital Limited ("Orizen"), at a consideration of HK$113.4 million (the "Step Acquisition"). Orizen is an investment holding company incorporated in the BVI and its subsidiary is principally engaged proprietary Chinese medicine business.

The fair value of the Group's then effective equity holding immediately before the Step Acquisition (the "Existing Shareholdings") formed part of the total consideration of the Step Acquisition and was included in the calculation of goodwill on the Step Acquisition.

As at 6 August 2019, the fair value of the Existing Shareholdings was estimated by management at HK$118,730,000. Compared with their respective carrying amounts before valuation, no fair value gain or loss was recognised.

17 BUSINESS COMBINATION (CONTINUED)

Upon the completion of the Step Acquisition on 6 August 2019, Orizen and its subsidiary, the former 45% associates of the Group, became 88% owned subsidiaries of the Group.

The fair values of assets acquired and liabilities assumed at the acquisition date were as follows:

	6 August 2019 HK$'000
Other property, plant and equipment	3,248
Intangible assets	217,097
Cash and cash equivalents	5,260
Inventories	12,084
Trade and other receivables	10,812
Trade and other payables	(8,603)
Current tax payable	(1,950)
Lease liabilities	(2,116)
Deferred tax liabilities	(35,920)
Fair value of net assets acquired	199,912
Less: fair value of Existing Shareholdings	(118,730)
Less: non-controlling interests	(23,989)
Goodwill	56,191
Total consideration paid, satisfied in cash	113,384
Less: cash and cash equivalents acquired	(5,260)
Net cash outflow	108,124

Goodwill arising from the acquisition of Orizen represents the benefits of expected synergies to be achieved from integrating the subsidiary into the Group's existing businesses and future market development. None of the goodwill recognised is expected to be deductible for tax purposes. The transaction costs of HK$398,000 incurred for the Step Acquisition were expensed and included in "Administrative and other operating expenses" in the consolidated statement of profit or loss and other comprehensive income.

Orizen and its subsidiary contributed revenue of HK$17,030,000 and profit of HK$3,079,000 to the Group for the period from 6 August 2019 to 30 September 2019. If the Step Acquisition had occurred on 1 April 2019, the Group's revenue and profit for the six months ended 30 September 2019 would have been increased by HK$36,349,000 and HK$5,383,000 (after deduction of share of profits from 1 April 2019 to 6 August 2019) respectively.

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(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

The following table presents the Group's financial assets that were measured at fair value at 30 September 2019.

	Fair value at 30 September 2019 HK$'000	Fair value measurements at 30 September 2019 categorised into Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Financial assets:				
Financial assets at FVPL				
– Unlisted	7,038	–	7,038	–
– Listed outside Hong Kong	7,780	7,780	–	–
Financial assets at FVOCI				
– Unlisted	70,541	–	70,541	–
– Listed in Hong Kong	212,694	212,694	–	–

	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				
– Unlisted	6,901	–	6,901	–
Financial assets at FVOCI				
– Unlisted	248,419	–	248,419	–
Contingent consideration receivable (note 11)	1,084	–	–	1,084

As at 31 March 2019, an unadjusted quoted price of one of the financial assets designated at FVOCI was not available in the active market. In August 2019, the same financial asset designated at FVOCI became listed on the Hong Kong Stock Exchange. Accordingly, the fair value measurement was transferred from Level 2 to Level 1. Except for this financial asset, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 during the six months ended 30 September 2019. 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.

19 CAPITAL COMMITMENTS

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

	As at 30 September 2019 HK$'000	As at 31 March 2019 HK$'000
Authorised and contracted for		
– Purchase of non-current assets	**135,120**	54,508

20 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel emoluments

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

	Six months ended September 30	
	2019 HK$'000	2018 HK$'000
Short-term employee benefits	**4,010**	4,135
Post-employment benefits	**178**	169
Equity compensation benefits	**764**	1,925
	4,952	6,229

21 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

A joint venture, which is 50% owned by the Group, has entered into a sale and purchase agreement with an independent third party to acquire a company which owns certain production facilities, for both generic drugs and proprietary chinese medicines, as well as relevant product licenses in Hong Kong at an investment sum of approximately HK$89,000,000 during the Reporting Period and the acquisition has been completed on 9 October 2019.

22 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

Glossary

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

"2019 Interim Report"	the interim report of the Company for the six months ended 30 September 2019
"adjusted EBITDA"	earnings before interest, taxes, depreciation and amortisation, where "interest" is regarded as including interest income and interest expenses and "depreciation and amortisation" is regarded as including impairment losses on non-current assets, further adjusted for non-recurring items not attributable to the operations of individual segments
"adjusted EBITDA margin"	adjusted EBITDA divided by revenue and multiplied by 100%
"ASEAN"	The Association of Southeast Asian Nations
"Board"	Board of Directors
"CG Code"	Corporate Governance Code as amended from time to time contained in Appendix 14 to the Listing Rules
"China" or "Mainland China" or "the PRC"	the People's Republic of China excluding, for the purpose of this interim results announcement, 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
"FY2019 Interim"	the six months ended 30 September 2018
"FY2020"	the year ending 31 March 2020
"FY2020 Interim" or "Reporting Period"	the six months ended 30 September 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
"Group"	the Company and its subsidiaries
"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", "the Group", "our Group", "we", "us", or "our"	the Company and its subsidiaries
"Kingshill"	Kingshill Development Limited, a limited liability company incorporated under the laws of BVI on 8 July 1998, and one of our Controlling Shareholders
"Listing"	the listing of the Shares on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time

"Longin"	Longin 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
"Model Code"	Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Mr. Lau"	Mr. Lau Wing Hung, one of our Controlling Shareholders
"Mr. Sum"	Mr. Sum Kwong Yip, Derek, our chairman, executive Director, chief executive officer and one of our Controlling Shareholders
"NAMI"	Nano & Advanced Materials Institute Limited
"net debts"	bank loans less cash and cash equivalents
"net gearing ratio"	net debts divided by total equity multiplied by 100%
"PIC/S"	two international instruments, the Pharmaceutical Inspection Convention and the Pharmaceutical Inspection Co-operation Scheme, which seek to promote constructive co-operation in the field of GMP between the participating authorities in different geographic markets
"PIC/S GMP"	Good Manufacturing Practice in accordance with the PIC/S GMP Guide issued by PIC/S
"Private Sector"	refers to non-Public Sector
"Prospectus"	the prospectus issued by the Company dated 8 September 2016
"Public Sector"	refers to all public institutions and a number of public institutions and clinics in Hong Kong
"Queenshill"	Queenshill Development Limited, a limited liability company incorporated under the laws of BVI on 12 December 2012
"R&D"	research and development
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Share(s)"	ordinary share(s) in the capital of the Company with nominal value of HK$0.01 each
"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 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
"Shareholder(s)"	holder(s) of Shares
"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
"Yunnan Baiyao Group"	Yunnan Baiyao Group Co., Ltd. (雲南白藥集團股份有限公司), a company established under the laws of the People's Republic of China with limited liabilities