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Jacobson Pharma Corporation Limited

雅各臣科研製藥有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

Stock Code : 2633

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2016

FINANCIAL HIGHLIGHTS

- The revenue for the six months ended September 30, 2016 amounted to approximately HK\$575.4 million, representing an increase of about 11.1% as compared to that of approximately HK\$518.2 million for the corresponding period of 2015.
- Primarily due to the one-off listing expenses of approximately HK\$22.6 million recorded during the six months ended September 30, 2016, profit attributable to the equity shareholders of the Company for the same period amounted to approximately HK\$57.1 million, representing a decrease of about 6.5% as compared to that of approximately HK\$61.1 million for the corresponding period of 2015. Excluding the one-off listing expenses, the profit attributable to the equity shareholders of the Company for the six months ended September 30, 2016 would have been HK\$79.7 million, representing an increase of about 30.4% as compared to the corresponding period of 2015.
- The Board recommends a payment of an interim dividend for the six months ended September 30, 2016 of HK 0.8 cents per share for the total amount of approximately HK\$14.5 million (six months ended September 30, 2015: nil).

RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Jacobson Pharma Corporation Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended September 30, 2016 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2015 as follows:

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended September 30, 2016 – Unaudited

		Six months ended September 30,	
		2016	2015
	Note	HK\$'000	HK\$'000
REVENUE	4	575,449	518,182
Cost of sales		<u>(330,837)</u>	<u>(297,752)</u>
Gross profit		244,612	220,430
Other income	5	4,186	1,900
Selling and distribution expenses		(72,601)	(68,324)
Administrative and other operating expenses		<u>(97,869)</u>	<u>(73,405)</u>
Profit from operations		78,328	80,601
Finance costs	6(a)	<u>(1,905)</u>	<u>(2,160)</u>
PROFIT BEFORE TAX	6	76,423	78,441
Income tax	7	<u>(17,133)</u>	<u>(12,022)</u>
PROFIT FOR THE PERIOD		59,290	66,419
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translation of financial statements of operations outside Hong Kong		<u>(973)</u>	<u>(1,521)</u>
Other comprehensive income		<u>(973)</u>	<u>(1,521)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		58,317	64,898
Profit attributable to:			
Equity shareholders of the Company		57,052	61,140
Non-controlling interests		<u>2,238</u>	<u>5,279</u>
Total profit for the period		59,290	66,419
Total comprehensive income attributable to:			
Equity shareholders of the Company		56,079	59,619
Non-controlling interests		<u>2,238</u>	<u>5,279</u>
Total comprehensive income for the period		58,317	64,898
		HK cents	HK cents
Earnings per share attributable to equity shareholders of the Company:	8		
– Basic		<u>4.27</u>	<u>4.67</u>
– Diluted		<u>4.27</u>	<u>4.67</u>

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30, 2016 – Unaudited

	<i>Note</i>	September 30, 2016	March 31, 2016
		<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		829,910	815,323
Leasehold land		50,166	51,418
Intangible assets		429,017	426,681
Non-current assets		30,904	27,170
Deferred tax assets		2,480	1,469
Total non-current assets		1,342,477	1,322,061
CURRENT ASSETS			
Inventories		202,588	196,915
Trade and other receivables	<i>10</i>	229,067	209,957
Current tax recoverable		6,321	10,192
Cash and cash equivalents		699,372	82,925
Total current assets		1,137,348	499,989
CURRENT LIABILITIES			
Trade and other payables	<i>11</i>	126,601	104,585
Bank loans		643,957	439,335
Obligation under finance leases		152	692
Amounts due to the Controlling Parties		–	36,202
Dividend payables		–	224,800
Current tax payable		22,367	11,221
Total current liabilities		793,077	816,835
NET CURRENT ASSETS/(LIABILITIES)		344,271	(316,846)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,686,748	1,005,215
NON-CURRENT LIABILITIES			
Obligations under finance leases		448	522
Deferred tax liabilities		52,001	48,548
Total non-current liabilities		52,449	49,070
NET ASSETS		1,634,299	956,145
CAPITAL AND RESERVES			
Share capital	<i>12</i>	17,500	13,125
Reserves		1,565,818	893,757
Total equity attributable to equity shareholders of the Company		1,583,318	906,882
Non-controlling interests		50,981	49,263
TOTAL EQUITY		1,634,299	956,145

NOTES

1 CORPORATE INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands on February 16, 2016. The Company is an investment holding company. The Group is principally engaged in manufacturing and trading of generic drugs and proprietary Chinese medicines.

Pursuant to a group reorganization (the “Reorganization”), completed on March 18, 2016, the Company became the holding company of companies now comprising the Group. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on September 21, 2016.

2 BASIS OF PREPARATION

Prior to the incorporation of the Company, the principal activities were carried out by Jacobson Pharma Group (BVI) Limited (“JPG BVI”) and its subsidiaries. Upon completion of the Reorganization, the Company became the holding company of the Group. As JPG (BVI) was controlled by the same group of equity holders, Mr. Sum Kwong Yip, Derek and Mr. Lau Wing Hung (referred to as the “Controlling Parties”) before and after the Reorganization and therefore there were no changes in the economic substance of the ownership and the business of the Group. The Reorganization only involved inserting a newly formed entity with no substantive operations as the new holding company of JPG (BVI), the former holding company of the Group. Accordingly, the Reorganization has been accounted for using a principle similar to that for a reverse acquisition, with JPG (BVI) treated as the acquirer for accounting purposes. The interim financial information have been prepared and presented as a continuation of the interim financial information of JPG (BVI) with the assets and liabilities of JPG (BVI) recognized and measured at their historical carrying amounts prior to the Reorganization.

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), 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 November 23, 2016.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the consolidated financial statements for the year ended March 31, 2016, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ending March 31, 2017. Details of any changes in accounting policies are set out in note 3.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to HKFRSs 2012–2014 Cycle*
- Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*

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

Annual Improvements to HKFRSs 2012–2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, *Interim financial reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

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

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

	For the six months ended September 30,			
	2016		2015	
	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>
Generic drugs				
Public Sector	170,715	29.6%	150,678	29.1%
Private Sector	335,902	58.4%	293,536	56.6%
Generic drugs subtotal	506,617	88.0%	444,214	85.7%
Proprietary Chinese medicines	68,832	12.0%	73,968	14.3%
Total	575,449	100.0%	518,182	100.0%

(b) Segment reporting

The Group manages its businesses by divisions, which are organized 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 two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Generic drugs: this segment develops, manufactures and distributes a wide range of off-patent medicines for various therapeutic indications. Currently the activities in this regard are primarily carried out in Hong Kong.
- Proprietary Chinese medicines: this segment develops, manufactures and distributes Chinese medicines with proprietary brand names and/or formulae. Currently the activities in this regard are primarily carried out 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 amortization 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 amortization", where "interest" is regarded as including interest income and interest expenses and "depreciation and amortization" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group's earnings are further adjusted for non-recurring items not attributable to the operations of individual segments.

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

Segment assets and liabilities of the Group are not reported to the Group's most senior executive management regularly. As a result, reportable assets and liabilities have not been presented in the interim financial report.

(i) Segment revenue and results

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Generic drugs		Proprietary Chinese medicines		Total	
	Six months ended September 30,		Six months ended September 30,		Six months ended September 30,	
	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	<u>506,617</u>	<u>444,214</u>	<u>68,832</u>	<u>73,968</u>	<u>575,449</u>	<u>518,182</u>
Reportable segment profit (adjusted EBITDA)	<u>99,804</u>	<u>90,784</u>	<u>8,631</u>	<u>19,862</u>	<u>108,435</u>	<u>110,646</u>

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

	Six months ended September 30,	
	2016 HK\$'000	2015 HK\$'000
Revenue		
Revenue from external customers	<u>575,449</u>	<u>518,182</u>
Profit		
Reportable segment profit derived from Group's external customers	108,435	110,646
Interest income from bank deposits	8	5
Gain on disposal of a subsidiary	2,393	–
Depreciation and amortization	(32,508)	(30,050)
Finance costs	<u>(1,905)</u>	<u>(2,160)</u>
Consolidated profit before taxation	<u>76,423</u>	<u>78,441</u>

(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.

	Revenue from external customers Six months ended September 30,	
	2016 HK\$'000	2015 HK\$'000
Hong Kong (place of domicile)	535,750	470,690
China	19,619	26,071
Macau	11,178	10,172
Singapore	3,624	7,398
Others	<u>5,278</u>	<u>3,851</u>
	<u>575,449</u>	<u>518,182</u>

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

	Specified non-current assets	
	As at September 30, 2016 <i>HK\$'000</i>	As at March 31, 2016 <i>HK\$'000</i>
Hong Kong (place of domicile)	1,289,620	1,266,309
China	33,255	37,486
Singapore	–	1
	<u>1,322,875</u>	<u>1,303,796</u>

(iv) *Information about major customers*

For the six months ended September 30, 2016, the Group's customer base includes one customer of the generic drugs segment with whom transactions have exceeded 10% of the Group's revenue. Revenue from sales of generic drugs to this customer, including sales to entities which are known to the Group to be under common control amounted to approximately HK\$170,715,000 (six months ended September 30, 2015: HK\$150,678,000).

5 OTHER INCOME

	Six months ended	
	September 30, 2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Commission income	235	176
Interest income from bank deposits	8	5
Other interest income	1,634	936
Net foreign exchange (loss)/gain	(90)	487
Net (loss)/gain on disposal of property, plant and equipment	(51)	70
Gain on disposal of a subsidiary	2,393	–
Others	57	226
	<u>4,186</u>	<u>1,900</u>

6 PROFIT BEFORE TAXATION

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

	Six months ended September 30,	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Finance costs		
Interest on bank loans	8,205	8,315
Finance charges on obligations under finance leases	23	58
	<u>8,228</u>	<u>8,373</u>
Less: Interest expenses capitalized into construction-in-progress and prepayment for acquisition of non-current assets	<u>(6,323)</u>	<u>(6,213)</u>
	<u>1,905</u>	<u>2,160</u>
(b) Other items		
Amortization		
– leasehold land	583	707
– intangible assets	7,553	7,226
Depreciation	24,372	22,117
Write-down of inventories	5,699	6,867
Research and development costs (other than amortization of capitalized development costs)	251	1,673
Listing expenses	22,610	–

7 INCOME TAX

	Six months ended September 30,	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax	14,715	15,532
Deferred taxation	2,418	(3,510)
	<u>17,133</u>	<u>12,022</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended September 30, 2015: 16.5%) to the six months ended September 30, 2016. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant tax jurisdictions.

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$57,052,000 (six months ended September 30, 2015: HK\$61,140,000) and the weighted average of 1,336,407,000 ordinary shares (six months ended September 30, 2015: 1,308,646,000 ordinary shares) in issue during the interim period, calculated as follows:

	Six months ended September 30,	
	2016 '000	2015 '000
Deemed weighted average number of ordinary shares:		
Shares of the Company issued at the beginning of the period	1,312,500	–
Shares of JPG (BVI) issued at the beginning of the period adjusted by the effect of share swap between the Company and JPG (BVI) (<i>note (i)</i>)	–	1,308,646
Effect of shares issued under initial public offering (<i>note 12</i>)	23,907	–
	<u>1,336,407</u>	<u>1,308,646</u>
Deemed weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	<u>1,336,407</u>	<u>1,308,646</u>

Note:

- (i) The amounts represent the shares of JPG (BVI) issued at April 1, 2015 of 22,000 ordinary shares adjusted by a conversion ratio of approximately 1 JPG (BVI) share for 59,484 ordinary shares of the Company.

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$57,052,000 (six months ended September 30, 2015: HK\$61,140,000) and the weighted average of 1,336,672,000 ordinary shares (six months ended September 30, 2015: 1,308,646,000 ordinary shares) in issue during the interim period. The reconciliation of the weighted average number of ordinary shares used in the calculation of the basic earnings per share to that of the diluted earnings per share is as follows:

	Six months ended September 30,	
	2016 '000	2015 '000
Deemed weighted average number of ordinary shares:		
Deemed weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	1,336,407	1,308,646
Effect of dilutive potential ordinary shares – Over-allotment option	265	–
	<u>1,336,672</u>	<u>1,308,646</u>
Deemed weighted average number of ordinary shares in issue during the period, used in the diluted earnings per share calculation	<u>1,336,672</u>	<u>1,308,646</u>

9 DIVIDENDS

Interim dividend of approximately HK\$14.5 million (HK 0.8 cents per share) in respect of the six months ended September 30, 2016 has been declared after the end of the Reporting Period. The interim dividend has not been recognized as a liability at the end of the Reporting Period.

During the six months ended September 30, 2015, no dividend has been declared by the former holding company of the Group prior to the completion of the Reorganization.

10 TRADE AND OTHER RECEIVABLES

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

	As at September 30, 2016 HK\$'000	As at March 31, 2016 HK\$'000
Less than 1 month	74,869	61,141
1 to 6 months	50,592	46,604
Over 6 months	147	310
	<hr/>	<hr/>
Trade receivables, net of allowance for doubtful debts	125,608	108,055
Other receivables	2,314	3,005
Investments in key management insurance contracts	59,180	58,452
Deposits and prepayments	41,965	40,445
	<hr/>	<hr/>
	229,067	209,957
	<hr/>	<hr/>

11 TRADE AND OTHER PAYABLES

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

	As at September 30, 2016 HK\$'000	As at March 31, 2016 HK\$'000
Within 1 month	19,187	13,441
1 to 6 months	13,977	12,504
Over 6 months	61	358
	<hr/>	<hr/>
Trade payables	33,225	26,303
Salary and bonus payables	46,272	40,639
Payables and accruals for addition of property, plant and equipment	8,436	8,235
Other payables and accruals	37,392	23,323
Receipts in advance	1,276	6,085
	<hr/>	<hr/>
	126,601	104,585
	<hr/>	<hr/>

12 SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Authorized:		
Ordinary shares of HK\$0.01 each at February 16, 2016 (date of incorporation), March 31, 2016 and September 30, 2016	5,000,000	50,000
Issued:		
At February 16, 2016 (date of incorporation)	100	1
Issue of ordinary shares for share swap between the Company and JPG (BVI)	1,308,646	13,086
Issue of ordinary shares for acquisition of non-controlling interests	3,754	38
At March 31, 2016	1,312,500	13,125
At April 1, 2016	1,312,500	13,125
Issue of ordinary shares under initial public offering	437,500	4,375
At September 30, 2016	1,750,000	17,500

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

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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Generic Drugs

The pharmaceutical expenditure in Hong Kong is projected at a growth of 7.1% in value term from HK\$13.0 billion in 2015 to HK\$13.9 billion in 2016. Additional resources have been earmarked by the policy bureau of the government to further improve Hong Kong's healthcare service infrastructure, by which funding for public healthcare programs, especially for the elderly, is set to rise. Led by the increased prevalence of chronic diseases and the aging of population in Hong Kong, the rising consumption of generic drugs in the Public Sector is generally expected to continue. The adoption of generic drugs substitution policy by governmental institutions as an effort to contain the ever-escalating drug expenditure would impact positively on the growth prospect of the local generic drugs market along with the expiration of patents for a number of blockbuster drugs in coming years.

For the six months ended September 30, 2016, all of our manufacturing units were operating effectively with a steady rise on production output. There were over 1,100 million of tablets and capsules, over 1,300 tonnes of oral liquid and over 94 tonnes of cream product produced, representing a respective increase of 12%, 28% and 37% versus same period in 2015. The revenue from generic drugs segment accounted for HK\$506.6 million for the six months ended September 30, 2016, representing an increase of about 14.0% as compared to the corresponding period in 2015. The steady growth of revenue of our generic drugs segment was attributed to an expanded sales and customer base in both Public and Private Sectors. Benefitting from the new tenders awarded, the revenue from Public Sector saw a promising growth of 13.3% to HK\$170.7 million for the six months ended September 30, 2016 compared to HK\$150.7 million for the corresponding period in 2015. The revenue from Private Sector increased by 14.4% to HK\$335.9 million for the six months ended September 30, 2016 compared to HK\$293.5 million for the corresponding period in 2015, mainly attributed to our gain in market share coupled with price escalation across the major selling product categories.

Proprietary Chinese Medicines (“PCM”)

During the Reporting Period, amidst a slow-down of the overall economy particularly in the retail sector, the Group continued to uplift its drives on brand management, marketing and sales of our PCM business. The sales of Po Chai Pills in Hong Kong reached HK\$36.6 million for the six months ended September 30, 2016 versus sales of HK\$28.7 million for the corresponding period of 2015. However, the total revenue from the PCM segment slightly decreased by 6.9% to HK\$68.8 million for the six months ended September 30, 2016 as compared with HK\$74.0 million for the corresponding period of 2015. The decrease was mainly due to a temporary sales vacuum induced by the cessation of the distribution arrangement with the previous distributor of Puji Pills in China. We have subsequently entered into new distribution agreements with two reputable distributors in China in November 2016. A subsidiary of Yunnan Baiyao Group Co., Limited (雲南白藥集團股份有限公司) is

appointed as our distributor of Puji Pills in Yunnan province whilst Zhuhai Jinming Medicine Co., Limited (珠海市金明醫藥有限公司) has also been engaged as our distributor in Guangdong province. Leveraging the high brand awareness of Po Chai Pills and the extensive network and experience of our distribution partners in China, we are confident that the sales penetration as well as market share of Puji Pills in China will be much enhanced along with a full exploitation of its newly secured OTC (Over-the-Counter) classification status.

Product Development

During the Reporting Period, with the addition of 13 newly selected products, we have a total of 98 products in our research and development pipeline. With effective project management protocols, our research and development team has made encouraging progress during this period with the completion of the development process and stability study for 13 products. Furthermore, the Group has finished the formulation development process for another 13 products.

The Group has also achieved good progress on several collaboration projects with local and overseas R&D institutions during the Reporting Period. The Group has signed a R&D collaboration agreement with the Hong Kong Institute of Biotechnology on September 23, 2016. The renovation work for the new Research and Development Center has gone underway, which is targeted to be completed by the end of 2016. Such center will be equipped with advanced equipment for development of specialized formulation and coating technology to be applied on premium generic drugs and PCM.

Merger and Acquisition Opportunities

The Group has entered into and completed an acquisition of a generic drugs manufacturer in October 2016. Please refer to “Events after the Reporting Period” below for details.

FINANCIAL REVIEW

Revenue

Revenue increased by 11.1% to HK\$575.4 million for the Reporting Period from HK\$518.2 million for the corresponding period of 2015, primarily due to an increase in sales of generic drugs of HK\$62.4 million which was partly off-set by a decline of HK\$5.2 million in revenue from sales of PCM. Please refer to the section headed “Business Review” above for detail analysis of the revenue by segments.

Cost of sales

Cost of sales increased by 11.1% to HK\$330.8 million for the Reporting Period from HK\$297.8 million for the corresponding period of 2015, which was largely in line with the corresponding growth in sales.

Gross profit and gross profit margin

As a result of the cumulative effect of the factors described above, our gross profit increased by HK\$24.2 million, or 11.0%, from HK\$220.4 million for the six months ended September 30, 2015 to HK\$244.6 million for the six months ended September 30, 2016. Our gross profit margin maintained at around 42.5% for the six months ended September 30, 2016 and 2015.

Other income

Other income increased to HK\$4.2 million for the six months ended September 30, 2016, as compared to HK\$1.9 million recorded for the corresponding period in 2015. Such increase was primarily due to (i) a gain on disposal of interest in a subsidiary of HK\$2.4 million, and (ii) an increase in other interest income of HK\$0.7 million.

Selling and distribution expenses

Our selling and distribution expenses increased by HK\$4.3 million, or 6.3%, from HK\$68.3 million for the six months ended September 30, 2015 to HK\$72.6 million for the six months ended September 30, 2016, primarily due to an increase in staff cost of HK\$5.4 million because of increases in head count and salaries, which was partially offset by a saving in external distributor fee of HK\$1.9 million after the establishment of our own central logistics center.

Administrative and other operating expenses

Our administrative and other operating expenses increased by HK\$24.5 million, or 33.4% from HK\$73.4 million for the six months ended September 30, 2015 to HK\$97.9 million for the six months ended September 30, 2016, primarily due to the one-off listing expenses of HK\$22.6 million incurred for the global offering.

Income tax

Income tax expenses increased by HK\$5.1 million, or 42.5%, from HK\$12.0 million for the six months ended September 30, 2015 to HK\$17.1 million for the six months ended September 30, 2016, primarily due to the increase in taxable profit. Our effective tax rate also increased from 15.3% for the six months ended September 30, 2015 to 22.4% for the six months ended September 30, 2016 primarily due to one-off non tax-deductible listing expenses incurred for the global offering.

Profit for the Reporting Period

As a result of the foregoing, in particularly the one-off listing expenses of HK\$22.6 million, profit for the Reporting Period decreased by HK\$7.1 million, or 10.7%, from HK\$66.4 million for the six months ended September 30, 2015 to HK\$59.3 million for the six months ended September 30, 2016. Our net profit margin decreased from 12.8% for the six months ended September 30, 2015 to 10.3% for the six months ended September 30, 2016.

Inventories

Our inventory balance increased by 2.9% from HK\$196.9 million as of March 31, 2016 to HK\$202.6 million as of September 30, 2016, primarily in preparation for an expected increase in sales.

Trade and other receivables

Our trade and other receivables increased from HK\$210.0 million as of March 31, 2016 to HK\$229.1 million as of September 30, 2016, which remained relatively stable.

Trade and other payables

Our trade and other payables primarily consist of payables for raw materials from our suppliers, who generally provide us credit terms of 30 to 90 days for invoice settlement. Our trade and other payables increased by 21.0% from HK\$104.6 million as of March 31, 2016 to HK\$126.6 million as of September 30, 2016, primarily due to our increase of purchases made in preparation for an expected increase in sales.

Bank loans and net gearing ratio

As of September 30, 2016, the Group's interest-bearing bank loans amounted to HK\$644.0 million. The Group's net gearing ratio is calculated based on bank loans, overdrafts and other loans less cash and cash equivalents divided by total equity. As of September 30, 2016, the Group was in net cash position and thus net gearing ratio is not applicable.

Liquidity and capital resources

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

The following table is a condensed summary of our consolidated statements of cash flows for the periods indicated and analysis of balances of cash and cash equivalents as of the dates indicated:

	For the six months ended	
	September 30,	
	2016	2015
	HK\$'000	HK\$'000
Net cash from operating activities	100,120	91,732
Net cash used in investing activities	(43,904)	(67,313)
Net cash from financing activities	560,327	6,679
Net increase in cash and cash equivalents	616,543	31,098
Effect of foreign exchange rate changes	(96)	(12)
Cash and cash equivalents at the beginning of the period	82,925	63,005
Cash and cash equivalents at the end of the period	699,372	94,091

Capital expenditure

The following table sets out the Group's capital expenditure for the periods indicated:

	For the six months ended	
	September 30,	
	2016	2015
	HK\$'000	HK\$'000
Additions of property, plant and equipment	43,086	59,100
Additions of intangible assets	9,889	100
	<u>52,975</u>	<u>59,200</u>

EMPLOYEE AND REMUNERATION POLICY

As of September 30, 2016, the Group had a total of 1,604 employees. For the Reporting Period, the total staff cost of the Group was HK\$175.2 million as compared to HK\$157.1 million for the six months ended September 30, 2015. The Group's employees typically enter into standard employment contracts with the Group. Remuneration packages for the Group's employees may comprise one or more of the following elements: base salary, productivity-related incentives and performance-related bonus. The Group sets out performance attributes for its employees based on their position and department and will periodically review their performance. The results of such reviews are used in their salary determinations, bonus awards and promotion appraisals. The Group offers various benefit plans to our employees, including top-up leave entitlement, pension, medical, life insurance and maternity benefits. Union has been established for the Group's employees in China are according to local labor laws. As of September 30, 2016, the Group did not experience any strikes or any labor disputes with our employees which have had or are likely to have a material effect on its business.

The Group places high values on recruiting, training and retaining its employees. It maintains high recruitment standards and provides competitive compensation packages. The Group also provides in-house and external trainings relating to management and professional skills and knowledge. It also sponsors the external training of our employees.

USE OF NET PROCEEDS FROM LISTING

Net proceeds from the listing of the Company (after deducting underwriting fee and relevant expenses) amounted to approximately HK\$600.3 million, which sum is intended to be applied in the manner as set out in the prospectus of the Company dated September 8, 2016. As at September 30, 2016, none of the proceeds had been utilized. An over-allotment option had been fully exercised on October 3, 2016, please refer to the section headed "Events After the Reporting Period" below.

PLEDGE OF ASSETS

As at September 30, 2016, certain buildings, machinery and equipment of the Group amounting to HK\$169.9 million were pledged as securities for the Group's certain bank loans.

EVENTS AFTER THE REPORTING PERIOD

On October 3, 2016, the over-allotment option as described in the prospectus under the Company's global offering was fully exercised by the sole global coordinator (on behalf of the international underwriters) in respect of the 65,625,000 additional new shares, representing approximately 15% of the offer shares initially available under the global offering. The over-allotment shares were issued and allotted by the Company at HK\$1.50 per share, being the offer price per offer share under the global offering, for gross proceeds of HK\$98.4 million.

On October 11, 2016, the Group entered into the sale and purchase agreement with an independent third party, pursuant to which the Group agreed to purchase the entire issued share capital of Cawah Holdings Limited and its operating assets which include certain pharmaceutical manufacturing machinery and equipment, at a consideration of HK\$100 million. The transaction was completed on October 31, 2016. The subsidiary of Cawah Holdings Limited namely, Medipharma Limited, is a reputable generic drug manufacturer in Hong Kong, the product portfolio of which is highly complementary to that of our Group. It currently enjoys a decent market share in the public sector and also carries with it some popular and well-known brands such as Doan's Ointment (兜安氏藥膏) and Methyl Salicylate Compound Ointment (複方冬青軟膏) thus providing us with a platform to explore the potential in the OTC (Over-the-Counter) channels. This acquisition helps sustain the Company's leadership position in generic drug market and opens up new business development opportunities in both private and public sectors. The Group will continue to look for potential targets that either carry products which are complementary to our current portfolio or bear proprietary brands and technologies that would bring about strategic synergies with our current businesses.

On October 19, 2016, pursuant to the share incentive scheme adopted by the Company on August 30, 2016, certain employees of the Group including certain executive directors of the Company, certain directors of subsidiaries of the Company were granted share awards entitling them to acquire an aggregate of 12,500,000 ordinary shares of HK\$0.01 each of the Company from The Jacobson Pharma (PTC) Limited.

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK 0.8 cents per share for the Reporting Period (six months ended September 30, 2015: not applicable), payable on January 20, 2017 (Friday) to shareholders whose names appear on the register of members of the Company on January 13, 2017 (Friday). The interim dividend will be paid out from the Company's distributable reserves.

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 January 11, 2017 (Wednesday) to January 13, 2017 (Friday), both days inclusive, during which period no transfer of shares of the Company will be registered. All transfer documents, accompanied by the relevant share certificates, shall be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on January 10, 2017 (Tuesday) for registration.

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 Corporate Governance Code and the Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its own code of corporate governance.

From September 21, 2016 (the "**Listing Date**") to September 30, 2016, 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.

Currently, Mr. Sum Kwong Yip, Derek 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 for Securities Transactions by Directors of Listed Issuer" (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors. Having made specific enquiry with the Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the period from the Listing Date to September 30, 2016.

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 during 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), Professor Chow Hee Lum, Albert and Dr. Lam Kwing Tong, Alan. The primary duties of the Audit Committee include reviewing and supervising the Group's financial reporting process, internal control and risk management systems, preparing financial statements and internal control procedures. It also acts as an important link between the Board and the external auditor in matters within the scope of the group audit.

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

PUBLICATION OF THE INTERIM RESULTS AND 2016 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.jacobsonpharma.com). The 2016 interim report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and will be published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
Jacobson Pharma Corporation Limited
Wong Wai Ming
Company Secretary

Hong Kong, November 23, 2016

As at the date of this announcement, the Board comprises Mr. Sum Kwong Yip, Derek (also as Chief Executive Officer), Mr. Lo Chun Bun and Mr. Yim Chun Leung as executive Directors, Professor Lam Sing Kwong, Simon as non-executive Director, and Professor Chow Hee Lum, Albert, Dr. Lam Kwing Tong, Alan and Mr. Young Chun Man, Kenneth as independent non-executive Directors.