



Jacobson

Pharma Corporation



Interim Report 2016

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

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Corporate Information

Board of Directors

Executive Directors

Mr. Sum Kwong Yip, Derek (*Chairman and Chief Executive Officer*)

Mr. Lo Chun Bun

Mr. Yim Chun Leung

Non-executive Director

Professor Lam Sing Kwong, Simon

Independent Non-executive Directors

Professor Chow Hee Lum, Albert

Dr. Lam Kwing Tong, Alan

Mr. Young Chun Man, Kenneth

Audit Committee

Mr. Young Chun Man, Kenneth (*Chairman*)

Professor Chow Hee Lum, Albert

Dr. Lam Kwing Tong, Alan

Nomination Committee

Professor Chow Hee Lum, Albert (*Chairman*)

Dr. Lam Kwing Tong, Alan

Mr. Young Chun Man, Kenneth

Mr. Yim Chun Leung

Remuneration Committee

Dr. Lam Kwing Tong, Alan (*Chairman*)

Mr. Young Chun Man, Kenneth

Mr. Lo Chun Bun

Authorized Representatives

Mr. Yim Chun Leung

Mr. Wong Wai Ming

Company Secretary

Mr. Wong Wai Ming

Registered Office

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

Corporate Headquarter and Principal Place of Business in Hong Kong

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

Cayman Islands Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar

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

Hong Kong Legal Advisor

Shearman & Sterling

Auditor

KPMG

Compliance Advisor

Altus Capital Limited

Public Relations Consultant

Strategic Public Relations Group

Stock Code

2633

Company Website

www.jacobsonpharma.com

Listing Date

September 21, 2016

Financial Highlights

	For the six months ended September 30,		Change
	2016 HK\$'000	2015 HK\$'000	
Revenue			
– Generic drugs	506,617	444,214	+14%
– Proprietary Chinese medicines	68,832	73,968	-6.9%
Total	575,449	518,182	+11.1%
Gross profit	244,612	220,430	+11.0%
Gross profit margin (%)	42.51%	42.54%	
Profit attributable to equity shareholders of the Company	57,052	61,140	-6.7%
Profit margin attributable to equity shareholders of the Company (%)	9.9%	11.8%	
Adjusted EBITDA (1)	108,435	110,646	-2.0%
Adjusted EBITDA margin (%) (2)	18.8%	21.4%	
Return on equity (annualized) (%) (3)	9.2%	12.8%	

	September 30, 2016 HK\$'000	March 31, 2016 HK\$'000	Change
Total assets	2,479,825	1,822,050	36.1%
Total liabilities	845,526	865,905	-2.4%
Total equity	1,634,299	956,145	70.9%

- (1) Adjusted EBITDA is calculated based on 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.
- (2) Adjusted EBITDA margin is calculated based on adjusted EBITDA divided by revenue and multiplied by 100%.
- (3) Return on equity (annualized) is calculated based on annualized 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%.

Chairman's Letter to Shareholders

Dear Shareholders,

Jacobson Pharma Corporation Limited (the "Company") and its subsidiaries (together with the Company referred to as the "Group") achieved a number of important milestones in the six months period ended September 30, 2016 (the "Reporting Period"). Firstly, we witnessed a successful listing of the Company on the Main Board of The Hong Kong Stock Exchange of Hong Kong Limited (the "Stock Exchange") on September 21, 2016. This transformation helps facilitate the Group's long-term strategic vision of becoming a leading company in the field of generic drugs and proprietary medicines in Asia Pacific.

Secondly, our new manufacturing facilities of which we started design and construction back in 2013 have been granted the official manufacturing license to operate in September 2016. This PIC/S accredited new manufacturing plant, being equipped with state-of-the-art equipment and advanced production machinery, provides a platform for efficient and high volume production. It will greatly enhance the Group's production capacity by over 130% and 40% for solid and liquid dosage forms respectively.

Thirdly, we have secured the OTC (Over-the-Counter) re-classification for Puji Pills in China in June 2016. With this OTC status, Puji Pills products can be displayed on open shelves for sale at point-of-sale level in retail drug stores and be advertised in mass media for branding campaign too. This is expected to deepen the market penetration of the product in the burgeoning OTC market segment in China.

We believe all these positive developments will position the Group well to navigate the challenges in the market and take full advantage of the growth opportunities that lie ahead.

Prospects

Prevailing in a market where the healthcare spending could spur up to 10–15% of GDP in certain developed countries such as Japan and United States, and the expenditure on prescription drugs continues to soar across the region owing to aging population, Jacobson is in an attractive position to tap the potential by offering alternative generics which offer both price advantage and product attributes. Domestically the healthcare costs currently account for only 5% of GDP in Hong Kong whilst the local generics market is expected to grow from HK\$2.96 billion in 2015 to HK\$3.26 billion in 2016, thus posting a growth of 10.35% in value term on a year-on-year basis. This would impact positively on the growth momentum of our generic drug business in the years to come.

Fuelled by a host of proven research and development capabilities, our strategic focus on the development of premium generics seems to be paying off with nice dividend. We launched a number of clinically-substantiated products in the cardiovascular and gastro-intestinal categories over the past 12 months. The effectiveness of these products gives us the confidence to explore the pay-for-performance business model, which in turn offers economic benefits to the healthcare systems and helps build trust with our customers. I am delighted to report that Mesalazine enteric-coated formula, being the first-to-market generic in Hong Kong, has been awarded the supply contract in the public sector institutions (the "Public Sector"). This contract, along with the newly-awarded Losartan tender, demonstrates that our strategy of focusing on premium generics is working to our advantage.

Leveraging its pre-eminent leadership position and comprehensive product portfolio in Hong Kong, the Group aims to replicate this successful business model in China and Macau. In Macau, we have set up a subsidiary office gearing up to leverage our sales and marketing experience to sell both generic drugs and proprietary Chinese medicines via our own on-the-ground sales-force. As at the date of this report, we have registered approximately 730 products with the Macau Health Bureau. For the second half of the year, we intend to expand our product offerings and broaden our market coverage so as to maximize sales potential substantially. As to our proprietary medicine, we have entered into two distribution agreements, one being with a subsidiary of Yunnan Baiyao Group Co., Limited (雲南白藥集團有限公司) as our distributor in Yunnan Province and one being with Zhuhai Jinming Medicine Co., Limited (珠海市金明醫藥有限公司) as our distributor in Guangdong province for Puji Pills. The strategic partnership with these two reputable distributors, which have extensive experience and network to sell and distribute proprietary Chinese medicine products, will enable the Group to deepen the market penetration for Puji Pills in China along with the exploitation of its OTC status.

On the front of mergers and acquisitions, we will continue to leverage our experience and knowhow to identify businesses with attractive products which strategically fit with our existing portfolio for acquisition or building a strategic alliance. In October 2016, the Group succeeded in completing an acquisition of a reputable generic drug company in Hong Kong, namely, Medipharma Limited. This acquisition helps sustain the Company's leadership position in the Hong Kong generic drug market and opens up new business development opportunities in both public and private sectors. Medipharma has been enjoying a decent market share amongst the public hospitals. It also owns some popular and well-known OTC brands such as Doan's Ointment (兜安氏藥膏) and Methyl Salicylate Compound Ointment (複方冬青軟膏). These brands are highly complementary to our current portfolio and will reinforce our market presence in the OTC channels where Jacobson has been selling leading products like Merz Contractubex (秀碧除疤膏) and Po Chai Pills (保濟丸).

I strongly believe that as result of our enhanced financial profile following this acquisition, we will be better positioned to enjoy the benefits of our Group's integrated research and development resources to support its revenue growth as well as expand our portfolio. The result is a stronger and more competitive Jacobson being well-positioned to thrive in an evolving marketplace, and to deliver enhanced value to our shareholders and other stakeholders.

Appreciation

As a market leader in Hong Kong, we have delivered a robust performance for our business on both revenue and profits for the Reporting Period. Our management team shall spare no effort in continuing with all the drives to strengthen our market position in the second half of 2016/17. I thank you for the confidence and trust that you have placed in our Company and its management. I would also like to extend my gratitude to our fellow Directors and our staff for their total dedication over the years.

Sum Kwong Yip, Derek

Chairman

Hong Kong, November 23, 2016

Corporate Vision and Mission



OUR VISION

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

OUR MISSION

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

We enhance the communities in which we operate.

We build shareholder values in all we do.

OUR CULTURE

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

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

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

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

Company Profile

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

The Group’s proprietary Chinese medicines are also highly recognized and widely carried. For example, Po Chai Pills is the most recognized gastrointestinal proprietary Chinese medicines in Hong Kong. The Group’s proprietary Chinese medicine business primarily manufactures and sells three proprietary products – Po Chai Pills, Flying Eagle Woodlok Oil and Tong Tai Chung Woodlok Oil.

Competitive Strengths

- **Leadership in a diverse range of generic drugs and the overall generic drug market in Hong Kong**

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

- **Highly recognized and widely carried proprietary Chinese medicines**

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

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

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

- **Well-established sales and distribution network covering substantially all sectors of the market**

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

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

Management Discussion and Analysis

Business Review

Generic Drugs

The pharmaceutical expenditure in Hong Kong is projected at a growth rate 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 and raise the funding for public healthcare programs, especially for the elderly. Led by the increased prevalence of chronic diseases and the aging of population in Hong Kong, the rising trend of consumption on generic drugs in the Public Sector is generally expected to continue. The adoption of generic drugs substitution policy by governmental institutions would impact positively on the growth prospect of the local generic drugs market, which will be further boosted by the expiration of patents for a number of blockbuster drugs in coming few years.

During the Reporting Period, 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 Reporting Period 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 Reporting Period 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.

A). New Research and Development Center in Hong Kong Institute of Biotechnology (“HKIB”)

The new research and development centre in HKIB is under renovation. It is expected to be completed by early 2017. This new center aims to develop a host of platform technologies on coating and formulation which are to be applied on premium generics and Chinese medicines too. It also aims to forge a platform for us to explore scientific collaboration with local or overseas research institutions on biotechnology products.

B). Collaboration with HKIB

The first project with HKIB on Process Analytical Technology for pharmaceutical manufacturing process control and optimization has gone underway with application submitted for Innovative Technology Fund under Innovative Technology Commission. The project will commence in the first quarter of 2017.

C). Collaboration with Nano & Advanced Materials Institute Ltd (“NAMI”)

A biotechnology project with NAMI on diagnosis of a major brain disease was started during the Reporting Period. The project will be completed within 18-24 months and we aim to commercialize the products to be derived from this project.

D). Collaboration with Powder Pharma Coating Inc

To pursue a specialized dry powder coating technology, we have signed a consensus agreement with patent owner Powder Pharma Coating Inc, whereby we will collaborate to develop several specified formulation with advance manufacturing technology via the use of certain patented technique. The technology can be applied as a cost effective solution for manufacturing of sophisticated coating formulation.

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.

Contingent liabilities

As of September 30, 2016, the Group did not have any significant contingent liabilities.

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.

Disclosure required under the Listing Rules

Pursuant to Listing Rule 13.18, a general disclosure obligation will arise where a listed issuer (or any of its subsidiaries) enters into a loan agreement that includes a condition imposing specific performance obligations on any controlling shareholder, such as a requirement to maintain a specific minimum holding in the share capital of the listed issuer.

Pursuant to the banking facilities granted by a bank in Hong Kong to a number of our subsidiaries, the bank has agreed to grant to such subsidiaries a number of bank loans and overdrafts in the aggregate sum of approximately HK\$52.6 million which shall be subject to renewal by December 2016 and contain a clause that gives the bank the unconditional rights to call the loans at any time. Such bank facilities contain a condition which requires that Mr. Sum shall maintain, directly or indirectly, not less than 51% beneficial shareholdings in the Company and remain as its largest Shareholder. Such condition will constitute a specific performance by Mr. Sum, one of the Controlling Shareholders, under the banking facilities entered into by the Group under Listing Rule 13.18.

As at September 30, 2016 and as at the date of this report, Mr. Sum will be deemed to be interested in approximately 74.78% and 71.39% of shareholdings in the Company respectively. Save as disclosed above, the Directors confirm that as of the date of this report, there were no circumstances which, had they been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under such Listing Rules in this interim report.

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 HK\$'000	2015 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 HK\$'000	2015 HK\$'000
Additions of property, plant and equipment	43,086	59,100
Additions of intangible assets	9,889	100
	52,975	59,200

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.

Risk Management

The followings are summary of principal risks and uncertainties identified by the Company which may have material and adverse impacts on its performance or operation. 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 may experience difficulty in winning tenders due to competition and the highly demanding tender process.
- Failure to comply with pharmaceutical or other regulations may restrict our business operations.
- The Group's generic drug production facilities are subject to PIC/S GMP-requirements, which may increase compliance costs and uncertainties.
- Defective products may expose us to liability or damage the Group's reputation.
- The Group may not be able to successfully identify, consummate and integrate future mergers or acquisitions.

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 existing in the Group's business, and participates in formulating appropriate risk management and internal control measures, and to ensure its implementation in daily operational management.

Environmental Policies and Performance

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

During the Reporting Period, we did not incur any material cost of 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 Corporate Governance Code and the Corporate Governance Report (the “CG Code”) contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

From 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 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.

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.

Material Acquisition and Disposal and Significant Investments

Save as disclosed in the Prospectus and in this report, the Group did not have any material acquisitions and disposals and significant investments during the Reporting Period.

Future Plans of Material Investments or Capital Assets

Save as disclosed in the Prospectus and in this report, the Group did not have any future plans for material investments or capital assets as at September 30, 2016.

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.

Audit Committee

The Board has established an Audit Committee which comprises three independent non-executive Directors, namely Mr. Young Chun Man, Kenneth (Chairman), Professor Chow Hee Lum, Albert and Dr. Lam Kwong 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.

Changes in Directors' Information

Save as disclosed herein, the Directors confirm that no information is required to be disclosed for the period from the Listing Date to September 30, 2016 pursuant to Rule 13.51B(1) of the Listing Rules.

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.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at September 30, 2016, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO and the Model Code are as follows:

(i) Interest in Shares or Underlying Shares of the Company

Name of Director	Capacity/ Nature of Interest	Number of Shares	Approximate Percentage of Issued Share Capital in the Company	Long position/ Short position/ Lending pool
Mr. Sum ^{(1) (2)}	Interests in controlled corporation Settlor of trusts Beneficiary of trusts	1,308,746,000	74.78%	Long position

Notes:

- (1) Mr. Sum is the sole shareholder of The Jacobson Pharma (PTC) Limited, being the trustee of the trust established for the purpose of holding the Shares under the Share Incentive Scheme. Queenshill Development Limited ("Queenshill") is the settlor of such trust. By virtue of the SFO, Mr. Sum and Queenshill are deemed to be interested in the 39,262,000 Shares held by The Jacobson Pharma (PTC) Limited. Mr. Sum is also the sole shareholder of Queenshill.
- (2) UBS Trustees (B.V.I) Limited, the trustee of The Kingshill Trust, holds the entire issued share capital of Kingshill Development Group Inc. ("Trust Co") through its nominee, UBS Nominees Limited. Trust Co holds the entire issued share capital of Kingshill. Kingshill in turn holds 850,684,000 Shares in the Company. The Kingshill Trust is a discretionary trust established by Mr. Sum (as the settlor) with Mr. Sum and his family members as the discretionary beneficiaries (directly and through The Queenshill Trust). By virtue of the SFO, Mr. Sum, as the settlor and a discretionary beneficiary of The Kingshill Trust and The Queenshill Trust, is deemed to be interested in the 850,684,000 Shares held by Kingshill.

Save as disclosed above, so far as known to any Directors as at September 30, 2016, none of the Directors or chief executive of the Company or any of their close associates had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register to be kept by the Company pursuant to section 352 of the SFO, or which were required, pursuant to section 347 of the SFO and the Model Code, to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at September 30, 2016, 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 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares	Approximate Percentage of Issued Share Capital in the Company	Long position/ Short position/ Lending pool
Queenshill ⁽¹⁾	Beneficial owner Settlor of a trust	301,012,000	17.20%	Long position
Kingshill ⁽²⁾	Beneficial owner Interest held jointly with another person	1,007,734,000	57.58%	Long position
Longjin ⁽²⁾	Beneficial owner Interest held jointly with another person	1,007,734,000	57.58%	Long position
Trust Co ⁽³⁾	Trust holding company	1,007,734,000	57.58%	Long position
UBS Trustees (B.V.I.) Limited ⁽³⁾	Trustee	1,007,734,000	57.58%	Long position
Mr. Lau ⁽²⁾	Interests in controlled corporation	1,007,734,000	57.58%	Long position
Mr. Sum ⁽¹⁾⁽³⁾	Interests in controlled corporation Settlor of trust	1,308,746,000	74.78%	Long position

Notes:

- (1) Mr. Sum is the sole shareholder of The Jacobson Pharma (PTC) Limited, being the trustee of the trust established for the purpose of holding the Shares under the Share Incentive Scheme. Queenshill is the settlor of such trust. By virtue of the SFO, Mr. Sum and Queenshill are deemed to be interested in the 39,262,000 Shares held by The Jacobson Pharma (PTC) Limited. Mr. Sum is also the sole shareholder of Queenshill.
- (2) Kingshill and Longjin are parties acting in concert pursuant to the Deed of Acting in Concert and hence each of them is deemed to be interested in the Shares held by each others. Please refer to the section headed "Relationship with our Controlling Shareholders" of the Prospectus for further details. Kingshill is wholly-owned by Trust Co under The Kingshill Trust, a discretionary trust established by Mr. Sum (as the settlor). Longjin is owned as to 75% by Mr. Lau.
- (3) UBS Trustees (B.V.I.) Limited, the trustee of The Kingshill Trust, holds the entire issued share capital of Trust Co through its nominee, UBS Nominees Limited. Trust Co holds the entire issued share capital of Kingshill. Kingshill in turn holds 850,684,000 Shares in our 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. 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.

Save as disclosed above, as at September 30, 2016, 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

Pursuant to a resolution passed by the Shareholders on August 30, 2016, the Company conditionally adopted the Share Option Scheme, which became effective on the Listing Date, to provide an incentive or reward for eligible participants for their contribution or potential contribution to the Group. The Share Option Scheme has a term of 10 years commencing from August 30, 2016. For details of the Share Option Scheme, please refer to Appendix V to the Prospectus.

Since the effective date of the Share Option Scheme and up to the end of the Reporting Period, no share option had been granted, exercised or cancelled by the Company under the Share Option Scheme and there was no outstanding share option under the Share Option Scheme as at September 30, 2016.

Share Incentive Scheme

Pursuant to a resolution passed by the Shareholders on August 30, 2016, the Company conditionally adopted the Share Incentive Scheme, which became effective on the Listing Date, to recognize the contributions by certain eligible persons and to give incentives in order to motivate and retain them for the continuing operation, development and long-term growth of the Group and to attract suitable personnel for further development of the Group. For details of the Share Incentive Scheme, please refer to Appendix V to the Prospectus.

Since the effective date of the Share Incentive Scheme and up to the end of the Reporting Period, no share had been offered or agreed to be offered under the Share Incentive Scheme and there was no outstanding share offered under the Share Incentive Scheme as at September 30, 2016.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in this interim report, at no time from the Listing Date was the Company or any of its subsidiaries, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended September 30, 2016 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended September 30,	
		2016 HK\$'000	2015 HK\$'000
Revenue	4	575,449	518,182
Cost of sales		(330,837)	(297,752)
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		(97,869)	(73,405)
Profit from operations		78,328	80,601
Finance costs	6(a)	(1,905)	(2,160)
PROFIT BEFORE TAX	6	76,423	78,441
Income tax	7	(17,133)	(12,022)
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		(973)	(1,521)
Other comprehensive income		(973)	(1,521)
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		2,238	5,279
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		2,238	5,279
Total comprehensive income for the period		58,317	64,898
Earnings per share attributable to equity shareholders of the Company:	8	HK cents	HK cents
– Basic		4.27	4.67
– Diluted		4.27	4.67

Details of dividend payables to equity shareholders of the Company are set out in note 9.

The notes on pages 23 to 34 form part of this interim financial report.

Consolidated Statement of Financial Position

As at September 30, 2016 – unaudited
(Expressed in Hong Kong dollars)

	Note	September 30, 2016 HK\$'000	March 31, 2016 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	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	11	229,067	209,957
Current tax recoverable		6,321	10,192
Cash and cash equivalents	12	699,372	82,925
Total current assets		1,137,348	499,989
CURRENT LIABILITIES			
Trade and other payables	13	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
		52,449	49,070
NET ASSETS		1,634,299	956,145
CAPITAL AND RESERVES			
Share capital	14	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

The notes on pages 23 to 34 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended September 30, 2016 – unaudited

(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company						Non-controlling interests	Total equity	
	Note	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000			Total HK\$'000
At April 1, 2015		2	78,005	61,724	8,142	809,470	957,343	49,292	1,006,635
Profit for the period		-	-	-	-	61,140	61,140	5,279	66,419
Other comprehensive income		-	-	-	(1,521)	-	(1,521)	-	(1,521)
Total comprehensive income for the period		-	-	-	(1,521)	61,140	59,619	5,279	64,898
At September 30, 2015		2	78,005	61,724	6,621	870,610	1,016,962	54,571	1,071,533
At April 1, 2016			13,125	6,445	126,645	5,787	754,880	49,263	956,145
Profit for the period		-	-	-	-	57,052	57,052	2,238	59,290
Other comprehensive income		-	-	-	(973)	-	(973)	-	(973)
Total comprehensive income for the period		-	-	-	(973)	57,052	56,079	2,238	58,317
Shares issued under initial public offering, net of share issuance expenses	14		4,375	615,982	-	-	620,357	-	620,357
Dividend paid by subsidiaries attributable to non-controlling interests	9		-	-	-	-	-	(520)	(520)
At September 30, 2016			17,500	622,427	126,645	4,814	811,932	50,981	1,634,299

The notes on pages 23 to 34 form part of this interim financial report.

Condensed Consolidated Statement of Cash Flows

For the six months ended September 30, 2016 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended September 30,	
		2016 HK\$'000	2015 HK\$'000
Operating activities			
Cash generated from operations		99,818	88,527
Income tax refunded		302	3,205
Net cash generated from operating activities		100,120	91,732
Investing activities			
Payment for purchase of property, plant and equipment and intangible assets		(50,062)	(67,622)
Proceeds from disposal of a subsidiary		3,522	–
Proceeds from other disposals of property, plant and equipment		2,628	304
Other cash flows arising from investing activities		8	5
Net cash used in investing activities		(43,904)	(67,313)
Financing activities			
Proceeds from bank loans		464,877	129,359
Repayment of bank loans		(260,658)	(105,552)
Decrease in amounts due to the Controlling Parties		(36,202)	(8,171)
Proceeds from shares issued	14	656,250	–
Payment for share issuance expenses		(30,209)	–
Dividends paid		(224,800)	–
Dividends paid to non-controlling interests		(520)	–
Other cash flows arising from financing activities		(8,411)	(8,957)
Net cash generated from financing activities		560,327	6,679
Net increase in cash and cash equivalents		616,543	31,098
Cash and cash equivalents at April 1,	12	82,925	63,005
Effect of foreign exchange rate changes		(96)	(12)
Cash and cash equivalents at September 30,	12	699,372	94,091

The notes on pages 23 to 34 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

For the six months ended September 30, 2016

1 Corporate information

Jacobson Pharma Corporation Limited (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 Company and its subsidiaries (collectively the “Group”) are principally engaged in manufacturing and trading of generic drugs and proprietary Chinese medicines.

Pursuant to a group reorganization completed on March 18, 2016 (the “Reorganization”), 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 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 and Mr. Lau (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 consolidated financial statements have been prepared and presented as a continuation of the consolidated financial statements 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 report has been prepared in accordance with the applicable disclosure provisions of 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 authorized for issue on November 23, 2016.

The interim financial report 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.

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 consolidated financial statements for the year ended 31 March 2016. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”). The interim financial report is unaudited.

3 Changes in accounting policies

The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards (“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 sector institutions and a number of public institutions and clinics in Hong Kong. Private Sector refers to customers not included in 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	
	HK\$'000	% of revenue	HK\$'000	% of revenue
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%

4 Revenue and segment reporting (Continued)

(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 Financial Information.

(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	506,617	444,214	68,832	73,968	575,449	518,182
Reportable segment profit (adjusted EBITDA)	99,804	90,784	8,631	19,862	108,435	110,646

4 Revenue and segment reporting (Continued)

(b) Segment reporting (Continued)

(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	575,449	518,182
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	(1,905)	(2,160)
Consolidated profit before taxation	76,423	78,441

(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	5,278	3,851
	575,449	518,182

4 Revenue and segment reporting (Continued)

(b) Segment reporting (Continued)

(ii) Geographic information (Continued)

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 HK\$'000	As at March 31, 2016 HK\$'000
Hong Kong (place of domicile)	1,289,620	1,266,309
China	33,255	37,486
Singapore	–	1
	1,322,875	1,303,796

(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 HK\$'000	2015 HK\$'000
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
	4,186	1,900

6 Profit before taxation

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

	Six months ended September 30,	
	2016 HK\$'000	2015 HK\$'000
(a) Finance costs		
Interest on bank loans	8,205	8,315
Finance charges on obligations under finance leases	23	58
	8,228	8,373
Less: Interest expenses capitalized into construction-in-progress and prepayment for acquisition of non-current assets	(6,323)	(6,213)
	1,905	2,160
(b) Other items		
Amortization		
– leasehold land	583	707
– intangible assets	7,553	7,226
Depreciation (<i>note 10</i>)	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 HK\$'000	2015 HK\$'000
Current tax	14,715	15,532
Deferred taxation	2,418	(3,510)
	17,133	12,022

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (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 (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) (note (i))	–	1,308,646
Effect of shares issued under initial public offering (note 14)	23,907	–
Deemed weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	1,336,407	1,308,646

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	–
Deemed weighted average number of ordinary shares in issue during the period, used in the diluted earnings per share calculation	1,336,672	1,308,646

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 Property, plant and equipment

	As at 30 September 2016 HK\$'000	As at 31 March 2016 HK\$'000
Cost:		
At 1 April 2016/2015	1,057,090	817,328
Additions	43,086	265,388
Disposed through disposal of a subsidiary	(714)	–
Other disposals	(15,446)	(20,920)
Exchange difference	(2,796)	(4,706)
At 30 September 2016/31 March 2016	1,081,220	1,057,090
Accumulated depreciation:		
At 1 April 2016/2015	241,767	206,638
Charge for the period/year	24,372	53,980
Written back on disposals of a subsidiary	(159)	–
Written back on other disposals	(12,767)	(15,577)
Exchange difference	(1,903)	(3,274)
At 30 September 2016/31 March 2016	251,310	241,767
Net book value:		
At 30 September 2016/31 March 2016	829,910	815,323

11 Trade and other receivables

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

	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
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
	229,067	209,957

12 Cash and cash equivalents

	As at September 30, 2016 HK\$'000	As at March 31, 2016 HK\$'000
Cash at bank and in hand	699,372	82,925

13 Trade and other payables

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

	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
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
	126,601	104,585

14 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.

15 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 September 30, 2016 HK\$'000	As at March 31, 2016 HK\$'000
Authorized and contracted for – Purchase of non-current assets	16,776	19,980

16 Material related party transactions

(a) Key management personnel emoluments

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

	Six months ended September 30,	
	2016	2015
	HK\$'000	HK\$'000
Short-term employee benefits	7,539	6,534
Post-employment benefits	161	120
Equity compensation benefits	–	–
	7,700	6,654

(b) Guarantee issued by related parties

As at September 30, 2016, bank loans guaranteed by the personal guarantees given by the Controlling Parties amounting to HK\$77,225,000 (31 March 2016: HK\$436,925,000). The Controlling Parties' personal guarantees were released and replaced by a corporate guarantee provided by the Company in October 2016.

17 Non-adjusting event after the Reporting Period

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. Of which, the proceeds of HK\$656,000 representing the par value of shares issued, were recorded in the Company's share capital. The remaining proceeds of HK\$94,631,000 (after deducting share issuance expenses of HK\$3,150,000) were recorded in the share premium.

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 the 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 the Group 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 the Group's current portfolio or bear proprietary brands and technologies that would bring about strategic synergies with the Group's current businesses. Management is still in the process of assessing the fair value of identifiable assets and liabilities of Cawah Holdings Limited and the operating assets at the acquisition date and hence the disclosure of amounts to be recognized in each line item in the consolidated statement of financial position is impracticable.

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.

Definitions

“Board”	Board of Directors
“China” or “the PRC”	the People’s Republic of China excluding, for the purpose of this Interim Report, Hong Kong, Macau Special Administrative Region and Taiwan
“Company” or “our Company” or “the Company”	Jacobson Pharma Corporation Limited, an exempted company incorporated in the Cayman Islands with limited liability on February 16, 2016
“Controlling Shareholders”	Mr. Sum, Mr. Lau, Kingshill, Kingshill Development Group Inc., Longjin
“Deed of Acting in Concert”	the deed of acting in concert dated January 8, 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
“GMP”	Good Manufacturing Practice, a set of detailed guidelines on practices governing the production of pharmaceutical products designed to protect consumers by minimizing production errors and the possibility of contamination
“Jacobson”, “Group”, “our Group”, “the Group”, “we”, “us”, or “our”	the Company and its subsidiaries and, in respect of the period before we became the holding company of our present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited
“Kingshill”	Kingshill Development Limited, a limited liability company incorporated under the laws of BVI on July 8, 1998, and one of our Controlling Shareholders
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Longjin”	Longjin Investments Limited, a limited liability company incorporated under the laws of BVI on August 30, 1994 and one of our Controlling Shareholders
“Main Board”	Main Board of the Stock Exchange

“Mr. Lau”	Mr. Lau Wing Hung, one of our Controlling Shareholders
“Mr. Sum”	Mr. Sum Kwong Yip, Derek, our chairman, executive Director, chief executive officer and one of our Controlling Shareholders
“PIC/S”	two international instruments, the Pharmaceutical Inspection Convention and the Pharmaceutical Inspection Co-operation Scheme, which seek to promote constructive co-operation in the field of GMP between the participating authorities in different geographic markets
“PIC/S GMP”	Good Manufacturing Practice in accordance with the PIC/S GMP Guide issued by PIC/S
“Prospectus”	the prospectus issued by the Company dated September 8, 2016
“Reporting Period”	six months ended September 30, 2016
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share(s)”	ordinary share(s) in the capital of the Company with nominal value of HK\$0.01 each
“Shareholder(s)”	holder(s) of Shares
“Share Incentive Scheme”	the share incentive scheme conditionally adopted by our Company on August 30, 2016, the principal terms of which are summarized in “Statutory and General Information — D. Other Information — 2. Share Incentive Scheme” in Appendix V to the Prospectus
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on August 30, 2016, the principal terms of which are summarized in “Statutory and General Information — D. Other Information — 1. Share Option Scheme” in Appendix V to the Prospectus
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“The Kingshill Trust”	The Kingshill Trust is a discretionary trust established by Mr. Sum (as settlor) on May 16, 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 May 16, 2016 with Mr. Sum and his family members as the discretionary beneficiaries

In this Interim Report, the terms “associate,” “close associate,” “connected person,” “connected transaction,” “controlling shareholder,” “core connected person,” “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.