



ACCOUNTS

For the quarter ended

September 30, 2015

Otsuka Pakistan Limited

(A Company of Otsuka Group Japan)

Otsuka-People Creating New Products For
Better Health Worldwide

Company Information

- Board of Directors** : Mr. Harry Bagjo (Chairman) (Alternate: Mr. Tariq Mehtab Feroz)
Mr. Hanif Sattar (Chief Executive Officer)
Mr. Makoto Sekiyama
Mr. Mehtabuddin Feroz
Mr. Yasuo Bando (Alternate: Mr. Abid Hussain)
Mr. Mohammad Abdullah Feroz
Mr. Makio Osaka (Alternate: Mr. Sajid Ali Khan)
Mr. Nazimuddin Feroz
Mr. Noor Muhammad (Independent Director)
- Sub Committees of the Board:**
- Audit Committee** : Mr. Noor Muhammad (Chairman)
Mr. Makoto Sekiyama (Member)
Mr. Mehtabuddin Feroz (Member)
Mr. Abid Hussain (Member)
- Human Resources & Remuneration Committee** : Mr. Makoto Sekiyama (Chairman)
Mr. Mehtabuddin Feroz (Member)
Mr. Hanif Sattar (Member)
- Company Secretary** : Mr. Sajid Ali Khan
- Auditors** : A.F. Ferguson & Co.
(Chartered Accountants)
- Legal Advisors** : Hassan & Humayun Associates
- Bankers** : The Bank of Tokyo-Mitsubishi, UFJ Ltd.
Bank Alfalah Limited
The Bank of Punjab
Habib Bank Limited
Allied Bank Limited
MCB Bank Limited
National Bank of Pakistan
- Registered Office** : 30-B, Sindhi Muslim Co-operative,
Housing Society, Karachi-74400
Tel.: 34528651 – 4, Fax: 34549857
E-mail: sakhan@otsuka.pk
jnoor@otsuka.pk
Website: www.otsuka.pk
- Factory** : Plot No. F/4-9,
Hub Industrial Trading Estate,
Distt. Lasbella (Balochistan)
Tel.: (0853) 303517-8
Fax: (0853) 303519
- Share Registrar** : Central Depository Company of Pakistan Limited
CDC House, 99 – B, Block 'B',
S.M.C.H.S., Main Shahra-e-Faisal
Karachi-74400.
Tel: Customer Support Services (Toll Free) 0800-CDCPL (23275)
Fax: (92-21) 34326053
Email: info@cdcpak.com
Website: www.cdcpakistan.com

Directors' Review

The Directors are pleased to present the accounts of the Company for the quarter ended September 30, 2015.

Business Review

Technical problems are now overcome and during the quarter there were no major breakdowns. However, taking the advantage of festival holidays we have been carrying out maintenance exercise which was overdue.

Sales in terms of value was 7.6% less than last year however our gross profit rate has improved from 5.9% last year in the same period to 10% in this quarter. This was possible by strict control on cost and productivity improvement. Due to no price increase and high cost of production we ended up with loss of Rs. 42 million which was 22% less than the loss incurred during the same period last year.

Future Outlook

The company is realigning its product portfolio to meet the market demand and making efforts to control cost and expenses for improvement of profitability. However without price increase our profitability will continue to remain under pressure. We do hope that the Government realizes the severity of the situation and takes corrective actions accordingly. Except pricing factor, the Board doesn't see any internal or external threat to its future operations.

On behalf of the Board

Hanif Sattar
Chief Executive Officer

Karachi

Dated: October 27, 2015

CONDENSED INTERIM BALANCE SHEET AS AT SEPTEMBER 30, 2015

	Note	2015 Sept. 30 Un-Audited	2015 June 30 (Audited)
----- Rupees in '000 -----			
ASSETS			
Non-current assets			
Property, plant and equipment	4	606,261	631,259
Long-term loans - considered good		4,950	5,300
Long-term deposits		1,288	1,288
Deferred tax asset - net		117,642	117,642
		<u>730,141</u>	<u>755,489</u>
Current assets			
Stores and spares		51,938	53,314
Stock-in-trade		487,125	487,680
Trade debts - unsecured - net		106,755	94,539
Loans and advances - considered good		39,355	13,532
Trade deposits, short-term prepayments and other receivables		16,058	13,374
Taxation		153,395	140,478
Bank balances		6,479	4,253
		<u>861,105</u>	<u>807,170</u>
Total assets		<u><u>1,591,246</u></u>	<u><u>1,562,659</u></u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital		110,000	110,000
Revenue reserves		(13,809)	31,914
Total shareholders' equity		<u>96,191</u>	<u>141,914</u>
LIABILITIES			
Non-current liabilities			
Long-term finance - secured		54,166	108,333
Current liabilities			
Short-term loan from a related party - unsecured		436,395	333,520
Trade and other payables		230,656	278,199
Current maturity of long-term finance - secured		108,334	108,334
Short-term running finance - secured		648,068	565,323
Mark-up accrued		17,436	27,036
		<u>1,440,889</u>	<u>1,312,412</u>
Total equity and liabilities		<u><u>1,591,246</u></u>	<u><u>1,562,659</u></u>
CONTINGENCIES AND COMMITMENTS			
	5		

The annexed notes 1 to 11 form an integral part of these financial statements.

Hanif Sattar
Chief Executive Officer

Mehtabuddin Feroz
Director

**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

	2015 Sept. 30	2014 Sept. 30
	----- Rupees in '000 -----	
Net sales	344,907	373,332
Cost of sales	(310,231)	(351,265)
Gross profit	34,676	22,067
Selling and distribution expenses	(39,106)	(41,337)
Administrative and general expenses	(18,778)	(14,585)
	(23,208)	(33,855)
Other income	7,087	10,228
	(16,121)	(23,627)
Other operating expenses	(8,169)	(3,717)
Operating loss	(24,290)	(27,344)
Finance cost	(17,988)	(27,059)
Loss for the period before taxation	(42,278)	(54,403)
Taxation - net	(3,445)	(5,569)
Loss for the period after taxation	(45,723)	(59,972)
	----- Rupees -----	
Loss per share	(4.16)	(5.45)

The annexed notes 1 to 11 form an integral part of these financial statements.

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

	2015 Sept. 30	2014 Sept. 30
	----Rupees in '000----	
Loss for the period after taxation	(45,723)	(59,972)
Other comprehensive income:		
Total comprehensive loss for the period	<u>(45,723)</u>	<u>(59,972)</u>

The annexed notes 1 to 11 form an integral part of these financial statements.

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2015

Note	2015 Sept. 30	2014 Sept. 30
	-----Rupees in '000-----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year before taxation	(42,278)	(54,403)
Adjustment for non-cash charges and other items:		
Depreciation	27,326	27,603
Gain on disposal of fixed assets - net	(35)	(862)
Provision for slow moving and obsolete stock-in-trade - net	5,486	(5,904)
Provision for stents - net	(3,258)	-
Impairment / (reversal of impairment) on trade debts - net	172	-
Mark-up on finances	17,988	27,059
	47,679	47,896
Operating (deficit) / surplus before working capital changes	5,401	(6,507)
Movement in working capital changes		
Decrease / (increase) in current assets		
Stores and spares	1,376	74
Stock-in-trade	(1,673)	67,009
Trade debts	(12,388)	33,525
Loans and advances	(25,823)	(20,381)
Trade deposits, short-term prepayments and other receivables	(2,684)	(1,424)
	(41,192)	78,803
(Decrease) / increase in current liabilities		
Trade and other payables	(47,543)	(87,881)
Cash generated from / (used in) operations	(83,334)	(15,585)
Interest paid	(27,588)	(37,282)
Taxes paid	(16,362)	(15,655)
(Increase) / decrease in long-term loans	350	56
Net cash used in operating activities	(126,934)	(68,466)
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed capital expenditure incurred	(2,476)	(5,246)
Proceeds from disposal of property, plant and equipment	183	1,680
Net cash used in investing activities	(2,293)	(3,566)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term finance paid	(54,167)	(54,167)
Short-term loan obtained from a related party	102,875	-
Net cash generated from financing activities	48,708	(54,167)
Net decrease in cash and cash equivalents	(80,519)	(126,199)
Cash and cash equivalents at the beginning of the year	(561,070)	(553,779)
Cash and cash equivalents at the end of the year	8 (641,589)	(679,978)

The annexed notes 1 to 11 form an integral part of these financial statements.

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

	Issued, subscribed and paid- up capital	Capital reserve	Revenue reserves			Total
		Reserve for issue of bonus shares	General reserve	Accumula- ted losses	Sub-total	
----- Rupees in '000 -----						
Balance as at July 1, 2014	110,000	-	367,500	(187,390)	180,110	290,110
Total comprehensive loss for the period ended September 30, 2014	-	-	-	(59,972)	(59,972)	(59,972)
Balance as at September 30, 2014	<u>110,000</u>	<u>-</u>	<u>367,500</u>	<u>(247,362)</u>	<u>120,138</u>	<u>230,138</u>
Balance as at July 1, 2015	110,000	-	367,500	(335,586)	31,914	141,914
Total comprehensive loss for the period ended September 30, 2014	-	-	-	(45,723)	(45,723)	(45,723)
Balance as at September 30, 2015	<u>110,000</u>	<u>-</u>	<u>367,500</u>	<u>(381,309)</u>	<u>(13,809)</u>	<u>96,191</u>

The annexed notes 1 to 11 form an integral part of these financial statements.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2015

1 THE COMPANY AND ITS OPERATIONS

The Company is incorporated in Pakistan as a public limited company and is listed on the Karachi and Lahore Stock Exchanges. The address of its registered office is 30-B, S.M.C.H. Society, Karachi, Pakistan. It is engaged in the manufacturing, marketing and distribution of intravenous infusions and trading in pharmaceutical products, nutritional foods and medical equipment. The Company is an indirect subsidiary of Otsuka Pharmaceutical Company Limited, Japan.

2 BASIS OF PREPARATION AND MEASUREMENT

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. The approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Companies Ordinance, 1984 or the directives issued by the SECP differ with the requirements of IFRSs, the requirements of the Companies Ordinance, 1984 or the said directives issued by the SECP prevail.

The disclosures made in this condensed interim financial information have, however, been limited based on the requirements of International Accounting Standard 34: 'Interim Financial Reporting'. This condensed interim financial information does not include all the information and disclosures required in a full set of financial statements and should be read in conjunction with the annual published audited financial statements of the Company for the year ended June 30, 2015.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention except that obligations in respect of certain staff retirement benefits are carried at present value of defined benefit obligation less fair value of plan assets and stock-in-trade is carried at the lower of cost and net realisable value.

These condensed interim financial statements are un-audited.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There are certain other new and amended standards and interpretations that are mandatory for the Company's accounting periods beginning on or after July 1, 2015 but are considered not to be relevant or do not have any material effect on the Company's operations and are, therefore, not detailed in this condensed interim financial information.

- 3.1 The significant accounting policies applied in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual published financial statements of the company for the year ended June 30, 2015.

	Note	(Unaudited) Sept.30 2015	(Audited) June 30, 2015
-----Rupees in '000-----			
4	PROPERTY, PLANT AND EQUIPMENT		
Operating fixed assets	4.1	591,800	617,307
Capital work-in-progress		14,461	13,952
		<u>606,261</u>	<u>631,259</u>

4.1 The following additions to and disposals of operating fixed assets have been made during the period:

	Quarter ended September 30, 2015					
	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles	Fork lifter	Total
----- Rupees in '000 -----						
Additions	280	1,382	305	-	-	1,967
Disposals:						
Cost	-	-	-	333	-	333
Accumulated depreciation	-	-	-	(185)	-	(185)
	-	-	-	148	-	148

	Quarter ended September 30, 2014					
	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles	Fork lifter	Total
----- Rupees in '000 -----						
Additions	637	6,365	362	1,179	-	8,543
Disposals:						
Cost	-	-	1,830	-	-	1,830
Accumulated depreciation	-	-	(1,012)	-	-	(1,012)
	-	-	818	-	-	818

5 CONTINGENCIES AND COMMITMENTS

- 5.1 On April 15, 2015, a notice under section 122(9) for amendment of assessment under section 122(5A) of the Income Tax Ordinance, 2001 was served by the Additional Commissioner Inland Revenue (ACIR) which required the Company to furnish details / explanations in respect of certain issues identified in the tax return filed with the Federal Board of Revenue for the tax year 2013. The Company has submitted the necessary explanations through its tax advisors for which the response is awaited.
- 5.2 On March 05, 2014, a notice of demand was served on the Company by the Additional Commissioner Inland Revenue (ACIR) for an amount of Rs 164.778 million (2014: Rs 164.778 million) under section 122 (5A) of the Income Tax Ordinance, 2001. The ACIR has added back certain items such as exchange loss, claims against provisions and writeoffs of inventory & trade debts, disallowance of finance cost, etc. in the income returned for tax year 2012. The Company filed an appeal with the Commissioner Inland Revenue (Appeals) [CIR(A)] who upheld the action of ACIR on certain items against which the Company filed an appeal before the Appellate Tribunal Inland Revenue to review the action of the CIR(A) which is pending adjudication. As on June 30, 2015, no provision has been made in these financial statements in respect of this amount as the management expects a favourable outcome in respect of the above matter.

- 5.3 On August 2009, a notice of demand was served on the Company by the Deputy Commissioner of Income Tax (DCIT) for an amount of Rs 5,721 million (2014: Rs 5,721 million) including additional tax amounting to Rs 0.457 million (2014: Rs 0.457 million) under sections 161, 162 and 205 of the Income Tax Ordinance, 2001. Out of the total demand, Company had already paid an amount of Rs 1.50 million (2014: Rs 1.50 million). The Company had filed an appeal against the order of the DCIT which is pending adjudication. As on June 30, 2015, no provision has been made in these financial statements in respect of the amount of Rs 5.721 million (2014: Rs 5.721 million) as the management is confident that the matter will be decided in favour of the Company.

(Unaudited) (Audited)
Sept.30 **June**
2015 **30, 2015**

5.4 **Commitments represent:**

----- Rupees in '000 -----

Capital expenditure contracted for but not incurred	-	620
Letters of credit	18,652	50,624
Letters of guarantee	39,009	31,103

6 **TRANSACTIONS WITH RELATED PARTIES**

	(Unaudited) Quarter ended September 30, 2015					(Unaudited) Quarter ended September 30, 2014
	Parent company	Other associated undertakings	Key management personnel	Other related parties	Total	
----- Rupees in '000 -----						
Transactions during the period						
Net sales net of discounts allowed Rs 24.507 million (2014: Rs 26.708 million)	-	155,343	-	-	155,343	174,735
Inventory purchased	-	35,588	-	2,332	37,920	25,652
Remuneration of the key management personnel	-	-	18,383	-	18,383	17,068
Consultancy fees	-	-	1,200	-	1,200	660
Loan from Otsuka Pharmaceutical Factory, Inc.	-	102,875	-	-	102,875	-
Mark-up expense on short-term loan from a related party	-	691	-	-	691	108
Charge relating to staff provident fund	-	-	2,422	-	2,422	2,033
Charge relating to staff gratuity fund	-	-	1,714	-	1,714	1,508

	(Unaudited) As at September 30, 2015					(Audited) June 30, 2015
	Parent company	Other associated undertakings	Key management personnel	Other related parties	Total	
----- Rupees in '000 -----						
Balance outstanding as at the end of the period / year						
Receivable from Hospital Supply Corporation against sale of goods	-	51,860	-	-	51,860	62,362
Payable to Otsuka Pharmaceutical Company Limited, Japan	-	-	-	-	-	11,209
Payable to PT Otsuka Indonesia	-	1,775	-	-	1,775	-
Payable to Otsuka OPV Joint Stock Company	-	-	-	-	-	891
Payable to Shanghai Microport Medical (Group) Company Limited	-	32,057	-	-	32,057	31,541
Payable to Otsuka Pharmaceutical Factory, Inc.	-	-	-	-	-	1,194
Payable to Thai Otsuka Pharmaceutical Company Limited, Thailand	-	10,178	-	-	10,178	19,611
Payable to Idrees Plastics	-	1,064	-	-	1,064	1,547
Loan from Otsuka Pharmaceutical Factory, Inc.	-	436,395	-	-	436,395	333,520
Advance from key management personnel	-	-	1,284	-	1,284	1,284
Mark up payable on short-term loan from an associated company	-	707	-	-	707	17
Payable to Employees' Provident Fund	-	-	-	2,173	2,173	2,080
Payable to Employees' Gratuity Fund	-	-	-	1,697	1,697	2,180
Receivable from Shanghai Microport Medical (Group) Company Limited	-	306	-	-	306	306

The Company enters into transactions with related parties for the sale of its products, purchase of raw materials, finished goods and spare parts and for rendering of certain services. Sales to related parties represent sales made to Hospital Supply Corporation which is the sole distributor of the Company's products in the southern region. The Company allows discount to the distributor on trade price based on agreed terms. Purchases from related parties primarily represent purchases of raw materials and finished goods from Otsuka group companies.

Remuneration to key management personnel is based on the agreed terms of employment with such personnel.

Contributions to and accruals in respect of staff retirement benefit plans are made in accordance with actuarial recommendations and terms of contribution plans.

7 SEGMENT INFORMATION

7.1 This condensed interim financial information has been prepared on the basis of a single reportable segment.

Sales from Intravenous Solutions represent 78.95 percent while sales from others represent 21.05 percent (September 30, 2014: 72.11 percent and 27.89 percent) respectively of the total sales of the Company.

Sales to Hospital Supply Corporation (a related party of the Company) which is the sole distributor in the southern region was around 45.04 percent during the period ended September 30, 2015 (September 30, 2014: 50.05 percent).

7.2 Sales percentage by geographic region is as follows:

	2015 Sept. 30	2014 Sept. 30
	in percent	
Pakistan	98.67	100
Afghanistan	1.33	-

7.3 All non-current assets of the Company as at September, 2015 are located in Pakistan.

8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following items included in the condensed interim balance sheet:

	(Unaudited) Sept.30 2015	(Unaudited) Sept.30 2014
	----Rupees in '000----	
Cash and bank balances	6,479	9,511
Short-term running finance utilised under mark-up arrangements	(648,068)	(689,489)
	<u>(641,589)</u>	<u>(679,978)</u>

9 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified wherever necessary for the purpose of comparison and better presentation. There were no major reclassifications in this condensed interim financial information during the current period.

10 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on October 27, 2015 by the Board of Directors of the Company.

11 GENERAL

Figures in this condensed interim financial information have been rounded off to the nearest thousand rupees.



Otsuka

A Sign of Japanese Commitment to Better Health