Otsuka-People Creating New Products For Better Health Worldwide

Half Yearly Report
December, 2016

Otsuka

Otsuka Pakistan Limited

(A Company of Otsuka Group Japan)

Otsuka Pakistan Limited

Company Information

Board of Directors	: Mr. Mikio Bando	(Chairman) (Alternate: Mr. Tariq Mehtab Feroz)
	Mr. Hanif Sattar	(Chief Executive)
	Mr. Hakugi Kiyono	(Alternate: Mr. Abid Hussain)
	Mr. Mehtabuddin Feroz	
	Mr. Suhari Mukti	
	Mr. Mohammad Abdullah Feroz	
	Mr. Makio Osaka	(Alternate: Mr. Sajid Ali Khan)
	Mr. Nazimuddin Feroz	
	Mr. Noor Muhammad	(Independent Director)
Company Secretary	: Mr. Sajid Ali Khan	
Audit Sub Committee of the Board	: Mr. Noor Muhammad	(Chairman)
	Mr. Hakugi Kiyono	(Member)
	Mr. Mehtabuddin Feroz	(Member)
Human Resources & Remuneration Committee Sub Committee of the Board	: Mr. Hakugi Kiyono	(Chairman)
	Mr. Mehtabuddin Feroz	(Member)
	Mr. Hanif Sattar	(Member)

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' Report

The Directors are pleased to present the accounts of the Company for the half year ended December 31, 2016.

Business Review

After having better results in the last quarter, good performance has been continued and the Company has been able to achieve earnings per share of Rs. 5.61 compared to loss of (Rs.7.25) per share in the same period last year. Better results were due to ample water supply at factory Hub area, cost control measures, price increase and realignment of production facilities.

Although the Company is facing severe competition and the prevailing over-supply situation in the market, however the sales for the half year have been increased by 27.6% compared to same period last year.

Selling and distribution expenses have increased by 20% approx. due to increased sales activities and heavy transportation cost. Administrative expenses were under control, resulting in operating profit of Rs.165.6m as compared to Rs. 94.3m loss in the last year same period. Other income was increased due to favorable exchange difference of Rs. 75m for reversal of mark to market provision.

Future Outlook

Keeping in view the emerging change for CPEC agreement and other economic factors your company will be facing challenges for growth however, management is confident that through strict cost controls and with the introduction of new products company would perform better.

Future is much depended on the Government policies especially business friendly environment including introduction of price increase mechanism and registration of new products expeditiously through DRAP. Therefore Management foresees that if these measures are being taken on timely basis, your company would be having good future prospects and the past losses can also be offset in near future.

On behalf of the Board

Hanif Sattar
Chief Executive Officer

Karachi

Dated: February 23, 2017

ڈائریکٹرز رپورٹ

کمپنی ڈائریکٹرز، 31 دسمبر 2016 پر مکمل ہونے والی ششماہی کے موقع پر کمپنی کے اکاؤنٹس انتہائی خوشی کے ساتھ پیش کرتے ہیں۔

کاروباری جائزہ:

آخری سہ ماہی میں بہتر نتائج کے بعد، اچھی کارکردگی کا سلسلہ جاری ہے اور کمپنی فی شیئر 5 روپے 61 پیسے کا منافع حاصل کرنے کے قابل ہوگئی ہے جبکہ گزشتہ سال اسی عرصے میں فی شیئر 7 روپے 25 پیسے کا گھاٹا ہوا تھا۔ اچھے نتائج، ہماری فیکٹری جو حب پر واقع ہے پر وافر مقدار میں پانی کی فراہمی، اخراجات محدود کرنے کے اقدامات، ہماری ادویات کی قیمتوں میں اضافہ اور پیداواری عوامل میں مزید مطابقت پیدا کرنے کی وجہ سے ہے۔

اگرچہ کمپنی کاروباری حریفوں سے شدید مقابلہ اور انکی مصنوعات کی بہت زیادہ فراہمی کی صورتحال کا سامنا کر رہی ہے، تاہم پچھلے چھ ماہ میں ہماری فروخت گزشتہ سال اسی عرصے کے مقابلے میں 27.6 فیصد اضافہ کے ساتھ ہے۔

فروخت اور تقسیم کے اخراجات میں 20 فیصد اضافہ، سیلز کی مختلف سرگرمیوں اور نقل و حمل کی لاگت میں اضافے کی وجہ سے ہے۔ انتظامی اخراجات کو قابو میں رکھا گیا جسکی وجہ سے 165 اعشاریہ 6 ملین روپے آپریٹنگ منافع حاصل ہوا جو پچھلے سال کے اسی عرصے میں 94 اعشاریہ 3 ملین روپے نقصان کی صورت میں تھا۔ دیگر آمدن میں اضافہ 75 ملین روپے کی ایکسچینج مد میں مارکیٹ قیمتوں میں کمی کے بدلاؤ سے ہوا۔

مستقبل کا جائزہ:

پاک چائنا اقتصادی راہداری معاہدے کے پس منظر میں پیش آنے والے بدلتے ہوئے حالات اور دیگر اقتصادی عوامل کی بنا پر آپکی کمپنی کو آگے بڑھنے کے لئے چیلنجوں کا سامنا کرنا ہوگا، تاہم مینجمنٹ کو یقین ہے کہ اخراجات پر مکمل عبور کے ساتھ قابو پاکر اور نئی مصنوعات کو متعارف کرتے ہوئے کمپنی بہتر کارکردگی کا مظاہرہ کرے گی۔

ہمارے مستقبل کا بہت حد تک انحصار گورنمنٹ کی پالیسیوں پر ہے خاص طور پر کاروبار دوست ماحول کی ضرورت ہے جسمیں ڈرگ ریگولیٹری اتھارٹی، پاکستان کا قیمتوں میں اضافے کا مربوط نظام اور نئی ادویات کی فوری طور پر رجسٹری کا عمل شامل ہے لہذا مینجمنٹ یہ کہہ سکتی ہے کہ اگر بروقت اقدامات کئے جائیں تو آپکی کمپنی کے اچھے مستقبل کے روشن امکانات پیدا ہونگے ساتھ ہی ساتھ ماضی کے نقصانات کا ازالہ بھی مستقبل قریب میں ہو سکتا ہے۔

منجانب بورڈ

حنیف ستار

چیف ایگزیکٹیو آفیسر

کراچی

مورخہ 23 فروری، 2017

pwc

A·F·FERGUSON&Co.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim balance sheet of **Otsuka Pakistan Limited** as at December 31, 2016 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement and condensed interim statement of changes in equity together with the notes forming part thereof (here-in-after referred to as 'the condensed interim financial information') for the half year then ended. The management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarters ended December 31, 2016 and December 31, 2015 have not been reviewed as we are required to review only the cumulative figures for the half year ended December 31, 2016.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended December 31, 2016 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

AFFerguson & Co

Chartered Accountants

Engagement Partner: **Noman Abbas Sheikh**

Dated: February 28, 2017

Karachi

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan
Tel: +92 (21) 32426682-6/32426711-5; Fax: +92 (21) 32415007/32427938/32424740; <www.pwc.com/pk>

▪ KARACHI ▪ LAHORE ▪ ISLAMABAD

CONDENSED INTERIM BALANCE SHEET
AS AT DECEMBER 31, 2016

	Note	(Unaudited) December 31, 2016	(Audited) June 30, 2016
		-----Rupees in '000-----	
ASSETS			
Non-current assets			
Property, plant and equipment	4	502,297	542,189
Long-term loans - considered good		4,350	4,614
Long-term deposits		1,293	1,288
Deferred tax asset - net	5	139,535	176,121
		647,475	724,212
Current assets			
Stores and spares		46,994	52,260
Stock-in-trade - net		480,737	429,037
Trade debts - unsecured - net		184,402	165,054
Loans and advances - considered good		19,973	26,592
Trade deposits, short-term prepayments and other receivables		22,953	22,778
Taxation - net		117,214	151,939
Bank balances		8,962	10,785
		881,235	858,445
Total assets		1,528,710	1,582,657
EQUITY AND LIABILITIES			
EQUITY			
Share capital			
Authorised share capital			
20,000,000 (June 30, 2016: 20,000,000) ordinary shares of Rs 10 each		200,000	200,000
Issued, subscribed and paid-up share capital			
11,000,000 (June 30, 2016: 11,000,000) ordinary shares of Rs 10 each		110,000	110,000
Revenue reserves		(22,841)	(80,522)
Shareholders' equity		87,159	29,478
LIABILITIES			
Current liabilities			
Short-term loan from a related party - unsecured	6	478,538	621,629
Trade and other payables		289,649	260,463
Current maturity of long-term finance - secured	7	-	108,333
Short-term running finance - secured	8	663,193	547,795
Mark-up accrued		10,171	14,959
		1,441,551	1,553,179
Total equity and liabilities		1,528,710	1,582,657
CONTINGENCIES AND COMMITMENTS	9		

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Hanif Sattar
Chief Executive Officer

Mehtabuddin Feroz
Director

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

	Note	Half year ended December 31,		Quarter ended December 31,	
		2016	2015	2016	2015
		----- Rupees in '000 -----		----- Rupees in '000 -----	
Net sales	10	809,780	634,672	381,437	289,765
Cost of sales		(565,275)	(575,793)	(264,398)	(265,562)
Gross profit		244,505	58,879	117,039	24,203
Selling and distribution expenses		(97,285)	(81,151)	(52,272)	(42,045)
Administrative and general expenses		(44,434)	(37,562)	(25,982)	(18,784)
		102,786	(59,834)	38,785	(36,626)
Other income		86,459	10,428	82,147	3,341
		189,245	(49,406)	120,932	(33,285)
Other expenses		(23,612)	(44,882)	(9,612)	(36,713)
Operating income / (loss)		165,633	(94,288)	111,320	(69,998)
Finance cost		(23,696)	(35,116)	(11,305)	(17,128)
Profit / (loss) for the period before taxation		141,937	(129,404)	100,015	(87,126)
Taxation - net		(80,193)	49,672	(46,536)	53,117
Profit / (loss) for the period after taxation		61,744	(79,732)	53,479	(34,009)
		---------- Rupees ----------			
Earnings / (loss) per share - basic and diluted		5.61	(7.25)	4.86	(3.09)

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Hanif Sattar
Chief Executive Officer

Mehtabuddin Feroz
Director

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

	Half year ended December 31,		Quarter ended December 31,	
	2016	2015	2016	2015
	----- Rupees in '000 -----		----- Rupees in '000 -----	
Profit / (loss) for the period after taxation	61,744	(79,732)	53,479	(34,009)
Other comprehensive income:				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit plan	(5,804)	(3,199)	(5,804)	(3,199)
Deferred tax on remeasurements of defined benefit plan	1,741	1,024	1,741	1,024
	(4,063)	(2,175)	(4,063)	(2,175)
Total comprehensive income / (loss) for the period	57,681	(81,907)	49,416	(36,184)

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Hanif Sattar
Chief Executive Officer

Mehtabuddin Feroz
Director

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2016

	Note	Half year ended December 31, 2016	Half year ended December 31, 2015
		----- Rupees in '000 -----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (loss) for the period before taxation		141,937	(129,404)
Adjustment for non-cash charges and other items:			
Depreciation		50,927	53,312
Gain on disposal of property, plant and equipment		(986)	(786)
Provision for slow moving and obsolete stock-in-trade - net		397	13,648
Provision for slow moving and obsolete stores and spares		2,009	-
Reversal of provision for stents - net		(732)	(1,602)
Impairment of trade debts - net		5,455	1,628
Mark-up on finances		23,696	35,116
		222,703	(28,088)
Working capital changes			
(Increase) / decrease in current assets			
Stores and spares		3,257	2,337
Stock-in-trade		(51,365)	(26,247)
Trade debts - unsecured		(24,803)	(24,167)
Loans and advances		6,619	(363)
Trade deposits, short-term prepayments and other receivables		(175)	1,273
		(66,467)	(47,167)
Increase / (decrease) in current liabilities			
Trade and other payables		23,382	(25,919)
		(43,085)	(73,086)
Cash generated from / (used in) operations		179,618	(101,174)
Interest paid		(28,484)	(42,249)
Taxes paid		(7,141)	(31,094)
Increase in long-term deposits		(5)	-
Decrease in long-term loans		264	410
Net cash generated from / (used in) operating activities		144,252	(174,107)
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(11,690)	(12,032)
Proceeds from disposal of property, plant and equipment		1,641	3,352
Net cash used in investing activities		(10,049)	(8,680)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term finance paid		(108,333)	(54,167)
Repayment of short-term loan from a related party		(143,091)	196,928
Net cash (used in) / generated from financing activities		(251,424)	142,761
Net decrease in cash and cash equivalents		(117,221)	(40,026)
Cash and cash equivalents at the beginning of the period		(537,010)	(561,070)
Cash and cash equivalents at the end of the period	12	(654,231)	(601,096)

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Hanif Sattar
Chief Executive Officer

Mehtabuddin Feroz
Director

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2016

	Issued, subscribed and paid-up capital	Revenue reserves			Total
		General reserve	Accumulated losses	Sub-total	
	Rupees in '000				
Balance as at July 1, 2015	110,000	367,500	(335,586)	31,914	141,914
Total comprehensive loss for the half year ended December 31, 2015	-	-	(81,907)	(81,907)	(81,907)
Balance as at December 31, 2015	110,000	367,500	(417,493)	(49,993)	60,007
Balance as at July 1, 2016	110,000	367,500	(448,022)	(80,522)	29,478
Total comprehensive income for the half year ended December 31, 2016	-	-	57,681	57,681	57,681
Balance as at December 31, 2016	110,000	367,500	(390,341)	(22,841)	87,159

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Hanif Sattar
Chief Executive Officer

Mehtabuddin Feroz
Director

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2016

1 LEGAL STATUS AND NATURE OF BUSINESS

The Company is incorporated in Pakistan as a public limited company and is listed on the Pakistan Stock Exchange Limited. 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 (IV) infusions and trading in pharmaceutical products, nutritional foods and medical equipment. The Company is an indirect subsidiary of Otsuka Pharmaceutical Company Limited, Japan.

As at December 31, 2016, the current liabilities of the Company exceeded its current assets by Rs 560.316 million (June 30, 2016: 694.734 million) mainly due to loans obtained by the Company from a group company and banks for financing the Balancing, Modernisation and Replacement (BMR) of its IV production line which concluded during the year ended June 30, 2014 and for meeting its working capital requirements.

The management of the Company has identified certain factors that might further extenuate the financial performance of the Company in future. The management believes that there are no imminent business and cash flow risks and has prepared a formal five years business plan of the Company based on which it strongly believes that the Company will be able to meet all its current and future liabilities as these fall due. The business plan features a consistent but gradual increase in the gross profit margin of the Company post price increase on its products (as explained in note 10.1), strict control over expenses, reduction in finance cost as a result of repayment of certain loans in future years, attainment of greater sales volume through more robust sales promotion and change in product mix. The management believes that after the implementation of initiatives stated in the five years business plan the Company will continue to have positive results in future year enabling it to set-off the losses incurred in the prior years.

2 BASIS OF PREPARATION

2.1 Statement of compliance

This condensed interim financial information has been prepared in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. The approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board 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 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 which are 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, 2016.

This condensed interim financial information is unaudited. However, a review has been performed by the external auditors in accordance with the requirements of the Code of Corporate Governance.

The comparatives in the condensed interim balance sheet presented in the condensed interim financial information as at December 31, 2016 have been extracted from the audited financial statements of the Company for the year ended June 30, 2016, whereas, the comparatives in the condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim cash flow statement have been extracted from the unaudited condensed interim financial information of the Company for the half-year ended December 31, 2015.

2.2 Accounting convention

This condensed interim financial information has 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.

2.3 Functional and presentation currency

This condensed interim financial information has been presented in Pak Rupees which is the functional and presentation currency of the Company.

3 SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES, ESTIMATES AND JUDGMENTS AND CHANGES THEREIN

3.1 The accounting policies applied in the preparation of this condensed interim financial information are the same as those that were applied in the preparation of the annual published audited financial statements of the Company for the year ended June 30, 2016.

3.2 The preparation of this condensed interim financial information in conformity with the approved accounting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise judgment in the application of the accounting policies of the Company. The estimates, judgments and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future years if the revision affects both current and future periods.

The significant estimates, judgments and assumptions made by management in applying the accounting policies and the key sources of estimation of uncertainty were the same as those that were applied to the financial statements of the Company as at and for the year ended June 30, 2016.

3.3 The financial risk management objectives and policies are consistent with those disclosed in the annual published audited financial statements of the Company for the year ended June 30, 2016.

3.4 Standards, interpretations and amendments to published approved accounting standards that are effective in the current period

There are certain amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2016 but are considered not to be relevant or do not have any significant effect on the Company's operations and are, therefore, not detailed in this condensed interim financial information.

3.5 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

IFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to the users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and, thus, has the ability to direct the use and obtain the benefits from the goods or services. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The management is in the process of assessing the impact of this IFRS on the financial statements of the Company.

There are certain other amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2017 but are considered not to be relevant or will not have any significant effect on the Company's operations and are, therefore, not detailed in this condensed interim financial information.

	Note	(Unaudited) December 31, 2016	(Audited) June 30, 2016
4 PROPERTY, PLANT AND EQUIPMENT		------Rupees in '000------	
Operating fixed assets		493,846	533,565
Capital work-in-progress	4.2	8,451	8,624
		502,297	542,189

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

	Half year ended December 31, 2016				
	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles	Total
	Rupees in '000				
Additions	234	5,840	783	5,006	11,863
Disposals:					
Cost		(32)	(603)	(2,458)	(3,093)
Accumulated depreciation		32	601	1,805	2,438
	-	-	(2)	(653)	(655)

	Half year ended December 31, 2015				
	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles	Total
	Rupees in '000				
Additions	280	3,219	364	1,801	5,664
Disposals:					
Cost	39	23,407	317	3,112	26,875
Accumulated depreciation	(39)	(22,424)	(316)	(1,530)	(24,309)
	-	983	1	1,582	2,566

	Note	(Unaudited) December 31, 2016	(Audited) June 30, 2016
		Rupees in '000	
4.2 Capital work-in-progress			
Stores and spares held for capital expenditure		8,301	8,624
Others		150	-
		8,451	8,624
5 DEFERRED TAX ASSET - NET			
Deferred tax asset - net	5.1	139,535	176,121

5.1 The Company has an aggregate amount of Rs 495.830 million (June 30, 2016: Rs 650.773 million) in respect of unused tax losses as at December 31, 2016. The management carries out periodic assessment to assess the benefit of these losses as the Company would be able to carry forward and set off these losses against the profits earned in future years. Based on this assessment the management has recognised a deferred tax debit balance amounting to Rs 148.749 million (June 30, 2016: Rs 201.740 million) on unused tax losses which includes deferred tax asset of Rs 100.811 million (June 30, 2016: Rs 95.750 million) on unabsorbed tax depreciation. The deferred tax debit balance represents the management's best estimate of probable benefit expected to be realised in future years in the form of reduced tax liability as the Company would be able to set off the profit earned in these years against losses carried forward from prior years. The amount of this benefit has been determined based on a business plan of the Company for the next five years. The business plan involves certain key assumptions underlying the estimation of future taxable profits estimated in the plan.

The determination of future taxable profit is most sensitive to certain key assumptions such as product pricing, future price increase of the Company's products, cost to income ratio, exchange, inflation and KIBOR rates, cost of material, supply arrangements, product mix, plant operations and its related maximum capacity utilisation, sales forecast and certain cost rationalisation measures expected to be achieved during the next five years. Any significant change in the aforementioned key assumptions may have an effect on the realisibility of the deferred tax asset. The management believes that it is probable that the Company will be able to achieve the profits projected in the business plan and consequently the deferred tax asset may be fully realised in future years.

	Note	(Unaudited) December 31, 2016	(Audited) June 30, 2016
		------Rupees in '000------	
6 SHORT-TERM LOAN FROM A RELATED PARTY - UNSECURED			
Loan from Otsuka Pharmaceutical Factory, Inc.	6.1	478,538	621,629

6.1 This represents a foreign currency denominated loan obtained in two tranches of JPY 75 million each drawn down on June 16, 2014 and December 22, 2014, three tranches of JPY 125 million each drawn down on February 26, 2015, April 27, 2015 and July 27, 2015 and one tranche of JPY 84.50 million drawn on December 16, 2015.

Each tranche was repayable within one year of the initial drawn down date. The first tranche of JPY 75 million falling due on June 15, 2015 was rolled forward twice for a further period of one year from the due date and was repaid early on December 30, 2016. The second tranche of JPY 75 million falling due on December 21, 2015 has been rolled forward twice for a further period of one year from the date it had fallen due. The third, fourth and fifth tranches of JPY 125 million each falling due on February 25, 2016, April 26, 2016 and July 26, 2016 respectively and the sixth tranche of JPY 84.50 million falling due on December 15, 2016 have also been rolled forward for another year from the due date.

Mark-up is charged on the outstanding amount at LIBOR + 0.40% (June 30, 2016: LIBOR + 0.40%) per annum and is payable semi-annually in arrears.

	Note	(Unaudited) December 31, 2016	(Audited) June 30, 2016
		------Rupees in '000------	
7 LONG-TERM FINANCE - SECURED			
From banking company			
Long-term finance utilised under mark-up arrangements	7.1	-	108,333
Less: Current maturity		-	(108,333)
		-	-

7.1 The long-term finance facility was availed from Bank of Tokyo-Mitsubishi UFJ, Limited (Pakistan branch) to finance the Balancing, Modernisation and Replacement (BMR) project of the Company. The facility was drawn down by the Company on January 30, 2013 and was to be fully repaid by January 2, 2017. Mark-up and principal amounts were repayable in equal semi-annual instalments with the first five instalments being repaid on July 2, 2014, January 2, 2015, July 2, 2015, January 4, 2016 and July 4, 2016. The last instalment was repaid early on November 2, 2016. Mark-up was charged at the rate of 6 months KIBOR + 1.75% (June 30, 2016: KIBOR + 1.75%) per annum on the outstanding balance of the facility. The facility had been secured by first pari-passu hypothecation and / or first equitable mortgage charge on all of the Company's present and future fixed assets including but not limited to land, building, plant and machinery, equipment, furniture and fixtures, etc. the vacation of which is in process.

		Note	(Unaudited) December 31, 2016	(Audited) June 30, 2016
			------Rupees in '000------	
8	**SHORT-TERM RUNNING FINANCE - SECURED**			
	From banking companies			
	Short-term running finances utilised under mark-up arrangements - secured	8.1	663,193	547,795

8.1 Particulars of short-term running finance - secured

Bank	Limit in Rs '000'	Mark-up rate	Security	Frequency of mark-up payment	Facility expiry date	(Unaudited) December 31, 2016	(Audited) June 30, 2016
						-----Rupees in '000-----	
The Bank of Tokyo Mitsubishi UFJ, Limited	525,000	3 months KIBOR + 1.00% p.a.	(a) Third supplemental joint pari passu letter of hypothecation for: - current assets for Rs 500 million; - fixed assets (plant and machinery) for Rs 254 million; (b) Second supplemental joint memorandum confirming constructive deposit of title deeds over land and building for Rs 124 million; and (c) Fourth charge over plant and machinery (all present and future fixed assets) for Rs 250 million.	Quarterly	September 29, 2017	459,841	373,266
Bank Alfalah Limited	155,000	3 months KIBOR + 1.25% p.a.	(a) Third supplemental joint pari passu letter of hypothecation for: - current assets for Rs 147 million; - fixed assets (plant and machinery) for Rs 121 million; and (b) Second supplemental joint memorandum confirming constructive deposit of title deeds over land and building for Rs 51 million.	Quarterly	January 31, 2017	131,561	114,109
The Bank of Punjab	100,000	3 months KIBOR + 1.25% p.a.	Third supplemental joint pari passu letter of hypothecation for Rs 133.334 million over current assets and a ranking charge over fixed assets for Rs 133 million.	Quarterly	March 31, 2017	71,791	60,420
	780,000					663,193	547,795

8.2 Import letters of credit (sight / usance / acceptance) and letters of guarantee.

8.2.1 The facilities relating to import letter of credit (sight / usance / acceptance) available from banks as at December 31, 2016 amounted in aggregate to Rs 190 million (June 30, 2016: Rs 190 million). The Company has exercised its option to utilise a part of the total facility limit of Rs 35 million (June 30, 2016: Rs 35 million) for issuance of letter of guarantee only. The amount remaining unutilised at December 31, 2016 was Rs 129.247 million (June 30, 2016: Rs 145.468 million).

8.2.2 In addition, a facility for guarantee available from banks as at December 31, 2016 amounted to Rs 80 million (June 30, 2016: Rs 80 million) of which the Company has an option to utilise Rs 35 million (June 30, 2016: Rs 35 million) for the issuance of letters of credit and Rs 30 million (June 30, 2016: Rs 30 million) for obtaining current finance. The amount remaining unutilised at the half year ended was Rs 16.323 million (June 30, 2016: Rs 26. 750 million).

9 CONTINGENCIES AND COMMITMENTS

9.1 On March 05, 2015, a notice of demand was served on the Company by the Additional Commissioner Inland Revenue (ACIR) for an amount of Rs 164.778 million (June 30, 2016: Rs 164.778 million) including workers' welfare fund, under section 122 (5A) of the Income Tax Ordinance, 2001. The ACIR added back certain items such as exchange loss, claims against provisions and write-offs of inventory and trade debts and disallowed finance cost 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 (ATIR) to review the action of the CIR(A). The latest hearing by the ATIR was held on January 19, 2017 against which an order is awaited. As at December 31, 2016, as a matter of abundant caution, the management has made a provision amounting to Rs 13.317 million (which includes provision for workers' welfare fund of Rs 0.734 million) in respect of items maintained by the CIR(A) in his order. However, no provision has been made in this condensed interim financial information in respect of the remaining amount as the management expects a favourable outcome for this matter.

9.2 The Company has also filed a suit in the Sindh High Court (SHC) against the imposition of sales tax under the Sales Tax Act, 1990 with respect to raw and packaging material being imported and purchased locally by the Company for manufacturing pharmaceutical products. The SHC has passed and interim order in favour of the Company maintaining that items fetching lessor custom duty than ten percent ad valorem, may not be subject to the levy of sales tax. The matter is at the stage of hearing of applications. During the half year ended 31, December 2016, the Company has availed sales tax exemption under the said stay order amounting to Rs 2.696 million on import packaging material. Based on the advice of the lawyer who is handling the case, the management believes the Company have a strong case and the suit is likely to be decreed in its favour. Accordingly, no provision has been made in this condensed interim financial information during the half year ended December 31, 2016 in respect of the stated amount.

		Note	(Unaudited) December 31, 2016	(Audited) June 30, 2016
			------Rupees in '000------	
9.3	Commitments in respect of:			
	Capital expenditure contracted for but not incurred		-	433
	Letters of credit		25,753	9,532
	Letters of guarantee		63,677	53,250
9.4	Claims not acknowledged as debt	9.4.1	54,390	43,963

9.4.1 During the year ended June 30, 2015, the Collector of Customs withheld stocks of polyethylene, pharmaceutical grade granules at import stage with a view that those should have been classified as packaging material instead of raw materials and subject to levy of sales tax. The management contended that those materials were used for manufacturing of IV solutions and constituted an integral part of the finished products and were, therefore, exempt from sales tax under SRO 551 (1)/2008 dated June 11, 2008. Thereafter, the Company has been importing materials of polyethylene (for IV solutions) which are being released by the Collector of Customs after submissions of bank guarantees.

The matter has been taken up by the Company in the High Court of Sindh and the management and its legal advisor believe that the decision will be in favour of the Company. Accordingly, no provision has been made in the condensed interim financial information of the Company during the half year ended December 31, 2016 against claims amounting to Rs 54.390 million (June 30, 2016: Rs 43.963 million).

9.5 There were no other contingencies and commitments outstanding as on December 31, 2016 and June 30, 2016.

10 NET SALES

	Note	(Unaudited) December 31, 2016	(Unaudited) December 31, 2015
		------Rupees in '000------	
Sales (net of returns of Rs 10.425 million; 2015: Rs 5.418 million)	10.1	912,917	708,737
Less: sales tax		(8,463)	(8,394)
		904,454	700,343
Less: discounts		(94,674)	(65,671)
		809,780	634,672

10.1 During the year ended June 30, 2015, the Drug Regulatory Authority of Pakistan (DRAP) issued the Drug Pricing Policy 2015 (the Policy) vide a notification dated March 5, 2015. The policy called for a transparent mechanism to be devised by the Policy Board to review the Maximum Retail Prices (MRPs) of drugs which had become non-viable in the market. Under clause 10(4) of the Policy, hardship cases of scheduled molecules submitted on specified form and complete in all respect were required to be processed on priority and decided on a first come first served basis but not later than 9 months from the date of notification of the Policy. Earlier, the management of the Company had submitted hardship cases for its IV products for price increase and a committee (the Committee) was formed to evaluate the contention of the Company and to recommend price increase for the products.

Since the Committee did not give any decision on the price increase within the stipulated nine months, the management was left with no choice but to increase the prices of the IV products of the Company. Accordingly, the Company increased the prices of fifteen of its products. In order to avoid any adverse action from DRAP, the Company filed a Civil Suit in respect of the subject matter before the High Court of Sindh (SHC) against DRAP and the Federation of Pakistan. The SHC issued a notice to the DRAP and the Federation of Pakistan not to take any coercive action against the Company. Subsequently, the SHC while hearing petition related to "hardship" cases filed by the Company ordered to continue the interim injunction granted to the Company reasserting that no coercive action be taken against it. The Court further said in its hearing that the DRAP would be at liberty to decide the pending hardship cases filed by the Company. On the other hand, the DRAP in the hearings informed the Court that the Company was required to furnish additional documentation in order to decide on the hardship cases. The documents in the prescribed forms were submitted by the Company to the DRAP. The Court in its hearings ordered the DRAP to process and decide the hardship cases and to place a compliance report / decision before the Court for its review once the requisite documents had been furnished by the Company. The DRAP submitted its report before the Court in the hearing held in May 2016. In its last hearing held on December 19, 2016, the SHC has barred the DRAP to take any coercive action against the Company till the time any decision is taken by the Economic Coordinate Committee of the Cabinet and the Federal Government regarding orphan drugs and IV infusions.

In view of the above, the management of the Company believes that there are strong grounds to support the Company's stance on the price increase matter and hardship cases will eventually be decided in favour of the Company.

11 TRANSACTIONS WITH RELATED PARTIES

Related parties include Otsuka Pharmaceutical Company Limited the holding company, associated companies / undertakings (namely Otsuka Pharmaceutical Factory Incorporation, Japan, Thai Otsuka Pharmaceutical Company Limited, Thailand, PT Otsuka Indonesia, Indonesia, Otsuka Pharmaceutical Company, Vietnam, Microport Medical (Shanghai) Company Limited, Otsuka Welfare Clinic, etc.), entities under common directorship (namely Hospital Supply Corporation, Uniferoz (Private) Limited and Efroze Chemicals Industries (Private) Limited), staff retirement funds and key management personnel. Details of transactions with related parties are as follows:

Particulars	(Unaudited) Half year ended December 31, 2016					(Unaudited) Half year ended December 31, 2015
	Parent company	Other associated companies / undertaking	Key management personnel	Other related parties	Total	
	Rupees in '000					
Transactions during the period						
Net sales (net of discounts allowed Rs 68.592 million; 2015: Rs 47.181 million)	-	392,783	-	-	392,783	296,110
Inventory purchased	-	76,030	-	2,565	78,595	102,832
Sales to Key Management Personnel	-	-	16	-	16	-
Donation to Otsuka Welfare Clinic	-	-	-	105	105	105
Consultancy charges	-	-	2,440	-	2,440	2,400
Remuneration of the key management personnel	-	-	45,456	-	45,456	40,412
Short-term loan obtained from/ (repaid to) a related party	-	(67,688)	-	-	(67,686)	175,376
Mark-up expense on short-term loan from a related party	-	1,833	-	-	1,833	1,514
Late payment charges received from HSC	-	-	-	1,688	1,688	144
Charge relating to staff provident fund	-	-	-	4,542	4,542	4,667
Charge relating to staff gratuity fund	-	-	-	3,535	3,535	3,220

Particulars	(Unaudited) As at December 31, 2016					(Audited) June 30, 2016
	Parent company	Other associated companies/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	-	138,037	-	-	138,037	107,567
Payable to Hospital Supply Corporation	-	15	-	-	15	-
Payable to Otsuka Pharmaceutical Company Limited, Japan	-	-	-	-	-	-
Payable to Shanghai Microport EPMed Tech Co., Limited	-	4,142	-	-	4,142	1,140
Payable to Shanghai Microport Medical (Group) Company Limited	-	30,970	-	-	30,970	30,196
Payable to Otsuka Pharmaceutical Factory, Inc.	-	569	-	-	569	1,431
Payable to Thai Otsuka Pharmaceutical Company Limited, Thailand	-	9,924	-	-	9,924	9,946
Payable to Idrees Plastics	-	186	-	-	186	1,350
Loan from Otsuka Pharmaceutical Factory, Inc.	-	478,538	-	-	478,538	621,629
Advance from key management personnel	-	-	1,548	-	1,548	1,011
Mark-up payable on short-term loan from an associated company	-	33	-	-	33	23
Payable to Employees' Provident Fund	-	-	-	2,175	2,175	2,804
Payable to Employees' Gratuity Fund	-	-	-	6,439	6,439	1,390
Receivable from Shanghai Microport Medical (Group) Company Limited	-	-	-	-	-	306
Payable to P.T. Otsuka Indonesia	-	1,908	-	-	1,908	-

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. In addition to the discount given at the time of sale, the Company also offers specific discounts based on product promotion policies. Purchases from related parties primarily represent purchases of raw materials and finished goods from Otsuka group companies.

Remuneration to the key management personnel is based on the agreed terms of employment with such personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company considers all members of their management team, including the Chief Executive Officer and working directors to be its key management personnel.

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

12 CASH AND CASH EQUIVALENTS

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

	(Unaudited) December 31, 2016	(Unaudited) December 31, 2015
	----Rupees in '000----	
Cash and bank balances	8,962	8,644
Short-term running finance utilised under mark-up arrangements	(663,193)	(609,740)
	(654,231)	(601,096)

13 SEGMENT INFORMATION

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

13.2 Sales from Intravenous Solutions represent 83.01 percent while sales from others represent 16.99 percent (December 31, 2015: 51.08 percent and 48.92 percent) respectively of the total sales of the Company.

13.3 The geographic segmentation of sales is as follows:

	(Unaudited) December 31, 2016	(Unaudited) December 31, 2015
	------- In percent -------	
Pakistan	99.45	98.79
Afghanistan	0.55	1.21

13.4 Sales to Hospital Supply Corporation (a related party of the Company) which is the sole distributor in the southern region was around 48.50 percent during the period ended December 31, 2016 (December 31, 2015: 46.65 percent).

13.5 All non-current assets of the Company as at December 31, 2016 are located in Pakistan.

14 PLANT CAPACITY AND PRODUCTION

	Half year ended December 31, 2016		Half year ended December 31, 2015	
	Capacity*	Actual production	Capacity*	Actual production
	---------- million bottles ----------			
I.V. solutions	16.0	9.9	16.0	8.2
Plastic ampoules	6.0	4.8	4.2	3.3
	22.0	14.7	20.2	11.5

The Company's underutilized capacity was mainly due to stoppage of production due to maintenance work and lower volumes of production due to production of 100ml bottles on GF line which, owing to being more complex than 500ml, consumes more machine hours.

15 FAIR VALUE MEASUREMENT

Fair value is the amount for which an asset could be exchanged, or liability can be settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Fair value hierarchy

International Financial Reporting Standard 13, 'Fair Value Measurement' requires the Company to classify assets using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Quoted price (unadjusted) in an active market for identical assets or liabilities;

- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

- Level 3: Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

As at December 31, 2016 and June 30, 2016, the Company did not have any assets or liabilities which were measured at fair value in the condensed interim financial information and the financial statements respectively.

16 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.

17 DATE OF AUTHORISATION FOR ISSUE

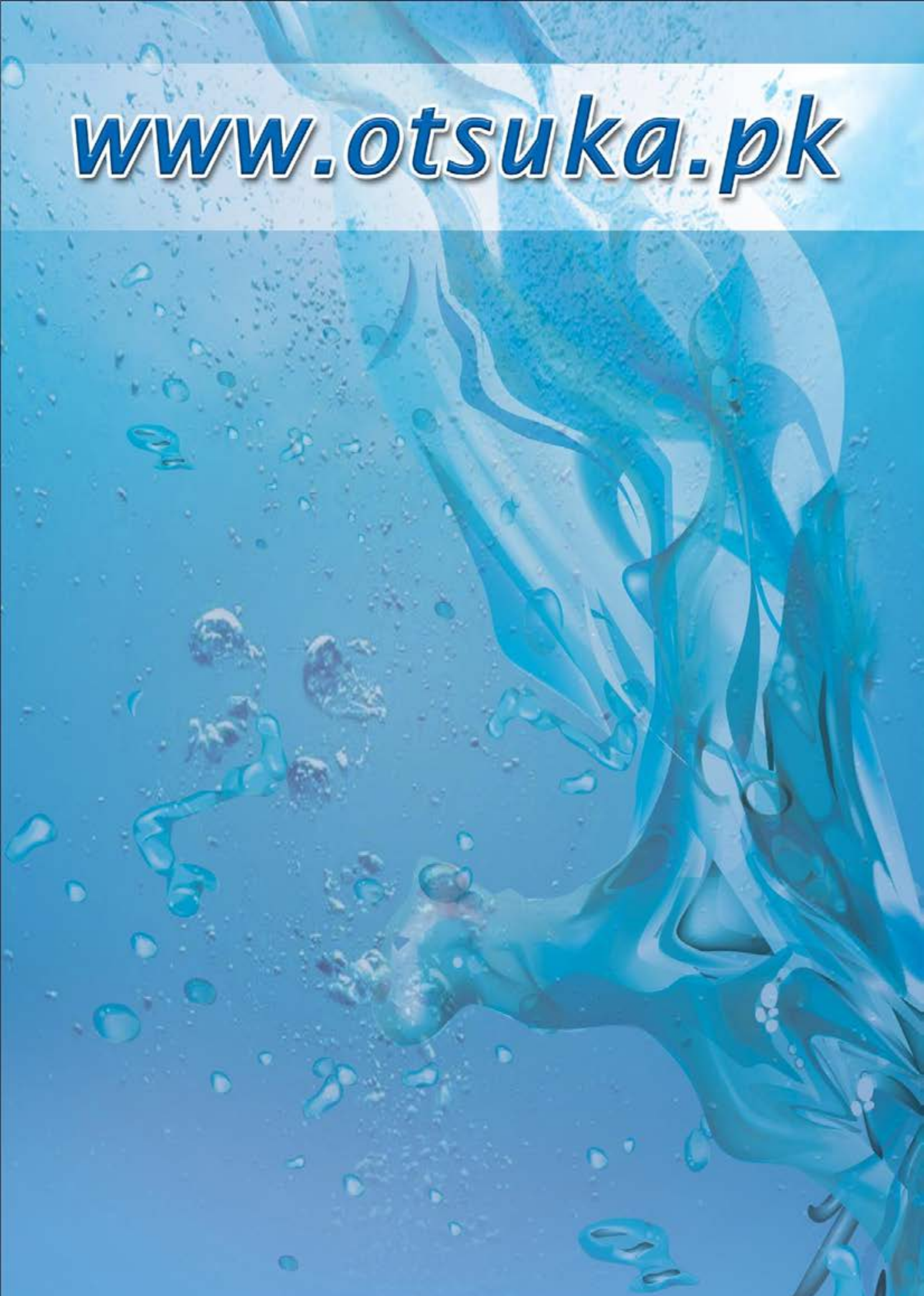
This condensed interim financial information was authorised for issue on **February 23, 2017** by the Board of Directors of the Company.

18 GENERAL

- Figures of the condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarters ended December 31, 2016 and December 31, 2015 have not been subject to limited scope review by the statutory auditors of the Company.

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

Hanif Sattar	**Mehtabuddin Feroz**
Chief Executive Officer	Director


www.otsuka.pk