

*Otsuka-People Creating New Products
For Better Health Worldwide*

REPORT

FOR THE NINE MONTHS ENDED

March 31, 2017



Otsuka

Otsuka Pakistan Limited

(A Company of Otsuka Group Japan)

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
inoor@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 accounts of the Company for the nine months ended March 31, 2017.

Business Review

From turnover point of view our sales performance in the quarter under review was not very encouraging when compared to same period last year. There is over supply situation in the market besides Chinese IV solutions which are also available in the market. Sales growth for the quarter was 7.4%. However, on cumulative basis our sales for the last nine months were 19% higher than the last year for the same period. Gross profit margin has improved due to price increase, strict control on production cost coupled with availability of water from Hub dam.

Selling and administration expenses have increased by 13.1% due to inflation and aggressive marketing and selling activities. The Company was able to earn reasonable operating profit to meet its financial obligations. The earning per share was Rs 1.92 per share as compared to a loss of Rs. 4.09 per share last year.

Future Outlook

The dynamics of IV solution business are different from conventional pharmaceutical business. Much dependence is on oil price and inflation. In coming quarter there would be announcement of budgeting measures by the Government and that will impact company's profitability if high taxes and duties are imposed. Frequent changing policies of DRAP and slow disposal of related matters are impacting business adversely. The board feels if the business environment is conducive there would be more opportunities to enhance foreign direct investment from abroad.

On behalf of the Board

Hanif Sattar

Chief Executive Officer

Karachi

Dated: April 25, 2017



ڈائریکٹر رپورٹ

مورخہ 31 مارچ 2017 پر کمپنی کی تیسری سہ ماہی کے اختتام پر ڈائریکٹر بڑی مسرت کے ساتھ کمپنی کے کماتاجات پیش کرتے ہیں۔

کاروباری جائزہ:

پچھلے سال کی مجموعی فروخت کے تناظر میں اگر تیسری سہ ماہی کا گزشتہ سال کی زیر جائزہ سہ ماہی سے موازنہ کیا جائے تو اسکی فروخت کی کارکردگی زیادہ حوصلہ افزانہیں۔ مارکیٹ میں چائنائی ڈرپس کے ساتھ ساتھ دیگر مقامی ڈرپس کی بھی بہتات ہے۔ مذکورہ سہ ماہی میں فروخت میں اضافہ 7 اعشاریہ 4 فیصد رہا۔ تاہم مجموعی طور پر پچھلے 9 ماہ کی فروخت پچھلے سال کے اسی عرصے کے مقابلے میں 19 فیصد زیادہ رہی۔ ہماری ادویات کی قیمتوں میں اضافے، پیداواری عوامل کے اخراجات پر مکمل قابو پا کر اور جب ڈیم سے پانی کی فراہمی کی وجہ سے مجموعی اضافی منافع میں بہتری آئی۔

مہنگائی اور فروخت کی جارحانہ سرگرمیوں کی وجہ سے فروخت اور انتظامی اخراجات میں اضافہ 13 اعشاریہ 1 فیصد رہا۔ کمپنی معقول منافع کمانے کے بعد اس قابل ہوئی ہے کہ اپنی مالی ذمہ داریوں کو پورا کر سکے۔ پچھلے سال فی شیئر 4 روپے 9 پیسے نقصان کے مقابلے میں اب 1 روپے 92 پیسے فی شیئر کی آمدن ہوئی ہے۔

مستقبل کی پیش بندی:

آئی وی سلوشن کا کاروبار دو اپنی دو ایسیوں کے کاروبار سے مختلف ہے، جبکہ بہت حد تک انحصار تیل کی قیمتوں اور مہنگائی سے ہے۔ اگلی سہ ماہی میں حکومت کی جانب سے بجٹ کا اعلان ہو گا اور اگر زیادہ ٹیکس اور محصولات لگائے گئے تو اس کا اثر کمپنی کے منافع پر ہو گا۔ پاکستان کی ڈرگ ریگولیٹری اتھارٹی کی جانب سے پالیسیوں میں بار بار تبدیلیاں اور متعلقہ امور پر سست روی کا عمل اس کاروبار پر بری طرح اثر انداز ہو رہے ہیں۔ بورڈ محسوس کرتا ہے کہ اگر کاروباری ماحول سازگار ہو تو بیرون ممالک سے براہ راست سرمایہ کاری کے مزید مواقع پیدا ہوں گے۔

منجانب بورڈ



حنیف ستار

چیف ایگزیکٹو آفیسر

کراچی

مورخہ 125 اپریل، 2017

CONDENSED INTERIM BALANCE SHEET AS AT MARCH 31, 2017

Note	(Unaudited)	(Audited)
	March 31, 2017	June 30, 2016
-----Rupees in '000----		
ASSETS		
Non-current assets		
Property, plant and equipment	4 486,077	542,189
Long-term loans - considered good	5,048	4,614
Long-term deposits	1,295	1,288
Deferred tax asset - net	5 131,190	176,121
	623,610	724,212
Current assets		
Stores and spares	47,318	52,260
Stock-in-trade - net	537,029	429,037
Trade debts - unsecured - net	176,281	165,054
Loans and advances - considered good	26,188	26,592
Trade deposits, short-term prepayments and other receivables	24,083	22,778
Taxation - net	103,566	151,939
Bank balances	26,680	10,785
	941,156	858,445
Total assets	1,564,766	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	(1,733)	(80,522)
Shareholders' equity	108,267	29,478
LIABILITIES		
Current liabilities		
Short-term loan from a related party - unsecured	6 500,345	621,629
Trade and other payables	323,693	260,463
Current maturity of long-term finance - secured	7 -	108,333
Short-term running finance - secured	8 620,273	547,795
Mark-up accrued	12,188	14,959
	1,456,499	1,553,179
Total equity and liabilities	1,564,766	1,582,657
CONTINGENCIES AND COMMITMENTS	9	

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.



Hanif Sattar
Chief Executive Officer



Mehtabuddin Feroz
Director

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2017

	Note	Nine months ended		Quarter ended	
		March 31,		March 31,	
		2017	2016	2017	2016
		----- Rupees in '000 -----		----- Rupees in '000 -----	
Net sales	10	1,243,111	1,038,479	433,331	403,807
Cost of sales		(853,876)	(921,745)	(288,601)	(345,952)
Gross profit		389,235	116,734	144,730	57,855
Selling and distribution expenses		(146,957)	(125,075)	(49,672)	(43,924)
Administrative and general expenses		(62,495)	(55,011)	(18,061)	(17,449)
		179,783	(63,352)	76,997	(3,518)
Other income		67,521	35,532	(18,938)	25,104
		247,304	(27,820)	58,059	21,586
Other expenses		(34,871)	(91,465)	(11,259)	(46,583)
Operating income / (loss)		212,433	(119,285)	46,800	(24,997)
Finance cost		(35,969)	(51,115)	(12,273)	(15,999)
Profit / (loss) for the period before taxation		176,464	(170,400)	34,527	(40,996)
Taxation - net		(93,612)	45,681	(13,419)	(3,991)
Profit / (loss) for the period after taxation		82,852	(124,719)	21,108	(44,987)
		----- Rupees -----			
Earnings / (loss) per share - basic and diluted		7.53	(11.34)	1.92	(4.09)

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.



Hanif Sattar
Chief Executive Officer



Mehtabuddin Feroz
Director

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE NINE MONTH ENDED MARCH 31, 2017**

	Nine months ended March 31,		Quarter ended March 31,	
	2017 ---- Rupees in '000 ----	2016	2017 ---- Rupees in '000 ----	2016
Profit / (loss) for the period after taxation	82,852	(124,719)	21,108	(44,987)
Other comprehensive income:				
<i>Items that will not be reclassified to profit or loss</i>				
Remeasurements of defined benefit plan	(5,804)	(3,199)	-	-
Deferred tax on remeasurements of defined benefit plan	1,741	1,024	-	-
	(4,063)	(2,175)	-	-
Total comprehensive income / (loss) for the period	78,789	(126,894)	21,108	(44,987)

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.



Hanif Sattar

Chief Executive Officer



Mehtabuddin Feroz

Director

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE NINE MONTHS ENDED MARCH 31, 2017

	Note	Nine months ended	
		March 31,	
		2017	2016
		---- Rupees in '000 ----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (loss) for the period before taxation		176,464	(170,400)
Adjustment for non-cash charges and other items:			
Depreciation		74,565	75,418
Gain on disposal of property, plant and equipment		(2,041)	(1,007)
Provision for slow moving and obsolete stock-in-trade - net		(204)	(6,032)
Provision for slow moving and obsolete stores and spares		2,008	-
Provision/(Reversal) of provision for stenfs - net		11,820	(175)
Impairment of trade debts - net		181	5,223
Mark-up on finances		35,969	51,115
		<u>298,763</u>	<u>(45,858)</u>
Working capital changes			
(Increase) / decrease in current assets			
Stores and spares		2,932	3,956
Stock-in-trade		(119,608)	46,233
Trade debts - unsecured		(11,408)	(56,146)
Loans and advances		404	3,922
Trade deposits, short-term prepayments and other receivables		(1,305)	(12,043)
		<u>(128,985)</u>	<u>(14,078)</u>
Increase / (decrease) in current liabilities			
Trade and other payables		57,426	(56,264)
		<u>(71,559)</u>	<u>(70,342)</u>
Cash generated from / (used in) operations		<u>227,204</u>	<u>(116,200)</u>
Interest paid		(38,740)	(62,358)
Taxes Refunded / (paid)-net		1,433	(19,403)
Increase in long-term deposits		(7)	-
Decrease/(Increase) in long-term loans		(434)	292
Net cash generated from / (used in) operating activities		<u>189,456</u>	<u>(197,669)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(19,569)	(16,049)
Proceeds from disposal of property, plant and equipment		3,157	4,479
Net cash used in investing activities		<u>(16,412)</u>	<u>(11,570)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term finance paid		(108,333)	(108,333)
Repayment of short-term loan from a related party		(121,284)	234,351
Net cash (used in) / generated from financing activities		<u>(229,617)</u>	<u>126,018</u>
Net decrease in cash and cash equivalents		<u>(56,573)</u>	<u>(83,221)</u>
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	<u>(593,583)</u>	<u>(644,291)</u>

The annexed notes 1 to 17 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 (UNAUDITED)
FOR THE NINE MONTH ENDED MARCH 31, 2017**

	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 period ended March 31, 2016	-	-	(126,894)	(126,894)	(126,894)
Balance as at March 31, 2016	110,000	367,500	(462,480)	(94,980)	15,020
Balance as at July 1, 2016	110,000	367,500	(448,022)	(80,522)	29,478
Total comprehensive income for the period ended March 31, 2017	-	-	78,789	78,789	78,789
Balance as at March 31, 2017	110,000	367,500	(369,233)	(1,733)	108,267

The annexed notes 1 to 17 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 (UNAUDITED) FOR THE NINE MONTH ENDED MARCH 31, 2017

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.

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.

The comparatives in the condensed interim balance sheet presented in the condensed interim financial information as at March 31, 2017 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 Nine Month ended March 31, 2016.

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.

These condensed interim financial statements are un-audited

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.

	Note	(Unaudited) March 31, 2017	(Audited) June 30, 2016
4 PROPERTY, PLANT AND EQUIPMENT		-----Rupees in '000-----	
Operating fixed assets		478,508	533,565
Capital work-in-progress	4.2	7,569	8,624
		486,077	542,189

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

----- Nine month ended March 31, 2017 -----					
	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles	Total
----- Rupees in '000 -----					
Additions	234	12,236	1,053	7,102	20,624
Disposals:					
Cost		(216)	(612)	(4,661)	(5,489)
Accumulated depreciation		216	608	3,549	4,373
			(4)	(1,112)	(1,116)

----- Nine month ended March 31, 2016 -----					
	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles	Total
----- Rupees in '000 -----					
Additions	10,210	8,349	364	1,801	20,724
Disposals:					
Cost	39	23,407	317	5,468	29,231
Accumulated depreciation	(39)	(22,424)	(316)	(2,974)	(25,753)
	-	983	1	2,484	3,478

	Note	(Unaudited) March 31, 2017	(Audited) June 30, 2016
----- Rupees in '000 -----			
4.2 Capital work-in-progress			
Stores and spares held for capital expenditure		7,569	8,624
		7,569	8,624
5 DEFERRED TAX ASSET - NET			
Deferred tax asset - net	5.1	131,190	176,121

- 5.1 The Company has an aggregate amount of Rs 437.932 million (June 30, 2016: Rs 650.773 million) in respect of unused tax losses as at March 31, 2017. 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 131.380 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 realisability 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)	(Audited)
		March 31, 2017	June 30, 2016
-----Rupees in '000-----			
6	SHORT-TERM LOAN FROM A RELATED PARTY - UNSECURED		
Loan from Otsuka Pharmaceutical Factory, Inc.	6.1	500,345	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 and third tranches of JPY 75 million and JPY 125 million respectively falling due on December 21, 2015 and February 25, 2016 have been rolled forward twice for a further period of one year from the date it had fallen due. The fourth and fifth tranches of JPY 125 million each falling due on 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)	(Audited)
		March 31, 2017	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 installments with the first five installments 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.

	(Unaudited) March 31, 2017	(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	<u>620,273</u>	<u>547,795</u>

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 March 31, 2017, 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 an interim order in favour of the Company maintaining that items fetching lesser 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 nine month ended March 31, 2017, the Company has availed sales tax exemption under the said stay order amounting to Rs 2.696 million on import of packaging material. Based on the advice of the lawyer who is handling the case, the management believes that the Company has 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 nine month ended March 31, 2017 in respect of the stated amount.

		(Unaudited) March 31, 2017	(Audited) June 30, 2016
	Note	-----Rupees in '000-----	
9.3 Commitments in respect of:			
Capital expenditure contracted for but not incurred		-	433
Letters of credit		162	9,532
Letters of guarantee		70,940	53,250
9.4 Claims not acknowledged as debt	9.4.1	61,031	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 nine months ended March 31, 2017 against claims amounting to Rs 61.031 million (June 30, 2016: Rs 43.963 million).

- 9.5 There were no other contingencies and commitments outstanding as on March 31, 2017 and June 30, 2016.

	Note	(Unaudited)	(Unaudited)
		March 31, 2017	March 31, 2016
-----Rupees in '000-----			
10 NET SALES			
Sales (net of returns of Rs 16.558 million; 2016: Rs 9.65 million)	10.1	1,395,483	1,161,173
Less: sales tax		(13,109)	(13,293)
		<u>1,382,374</u>	<u>1,147,880</u>
Less: discounts		(139,263)	(109,401)
		<u>1,243,111</u>	<u>1,038,479</u>

- 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, Shanghai MicroPort EP MedTech Co., Ltd., 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) Nine months ended March 31, 2017					(Unaudited) Nine Months ended March 31, 2016
	Parent company	Other associated companies/ undertakings	Key management personnel	Other related parties	Total	
Rupees in '000						
Transactions during the period						
Net sales (not of discounts allowed)		570,788	-	-	570,788	486,361
Rs. 98,895 million 2016; Rs. 75,518 's						
Inventory purchased	29,940	145,523	-	2,539	178,002	140,597
Sales to Key Management Personnel	-	-	57	-	57	-
Donation to Otsuka Welfare Clinic	-	-	165	-	165	105
Consultancy fees	-	-	3,700	-	3,700	3,600
Remuneration of the key management personnel	-	-	74,269	-	74,269	58,743
Short-term loan obtained from / (repaid to) a related party	-	(67,688)	-	-	(67,688)	175,376
Mark-up expense on short-term loan from a related party	-	2,633	-	-	2,633	2,433
Late payment charges received from HSC	-	-	-	2,341	2,341	533
Charge relating to staff provident fund	-	-	-	8,977	8,977	8,900
Charge relating to staff gratuity fund	-	-	-	3,448	3,448	4,893

Particulars	(Unaudited) As at March 31, 2017					(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		122,045	-	-	122,045	107,587
Payable to Hospital Supply Corporation		15	-	-	15	-
Payable to Otsuka Pharmaceutical Company Limited, Japan	31,048	-	-	-	31,048	-
Payable to Shanghai Microport EP MedTech Co., Limited		3,976	-	-	3,976	1,140
Payable to PT Otsuka Indonesia		-	-	-	-	-
Payable to Otsuka QPV Joint Stock Company		-	-	-	-	-
Payable to Shanghai Microport Medical (Group) Company Limited		45,670	-	-	45,670	30,196
Payable to Otsuka Pharmaceutical Factory, Inc.		94	-	-	94	1,431
Payable to Thai Otsuka Pharmaceutical Company Limited, Thailand		(57,30)	-	-	(57,30)	8,946
Payable to Idrees Plastics		-	-	-	-	1,350
Loan from Otsuka Pharmaceutical Factory, Inc.		(60,345)	-	-	(60,345)	621,629
Advance from key management personnel		-	1,514	-	1,514	1,011
Mark up payable on short-term loan from an associated company		710	-	-	710	23
Payable to Employees' Provident Fund		-	-	2,165	2,165	2,804
Payable to Employees' Gratuity Fund		-	-	6,442	6,442	1,390
Receivable from Shanghai Microport Medical (Group) Company Limited		-	-	-	-	309

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) March 31, 2017	(Unaudited) March 31, 2016
	----Rupees in '000----	
Cash and bank balances	26,690	5,758
Short-term running finance utilised under mark-up arrangements	(620,273)	(650,049)
	<u>(593,583)</u>	<u>(644,291)</u>

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 82.47 percent while sales from others represent 17.53 percent (March 31, 2016: 77.93 percent and 22.07 percent) respectively of the total sales of the Company.

	(Unaudited) March 31, 2017	(Unaudited) March 31, 2016
	----- In percent -----	
13.3 The geographic segmentation of sales is as follows:		
Pakistan	98.76	99.26
Afghanistan	1.24	0.74

13.4 Sales to Hospital Supply Corporation (a related party of the Company) which is the sole distributor in the southern region was around 45.92 percent during the period ended March 31, 2017 (March 31, 2016: 47.12 percent).

13.5 All non-current assets of the Company as at March 31, 2017 are located in Pakistan.

14 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 Fund 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 March 31, 2017 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.

15 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.

16 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on April 25, 2017 by the Board of Directors of the Company.

17 GENERAL

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



Hanif Sattar
Chief Executive Officer



Mehtabuddin Feroz
Director



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