Otsuka-People Creating New Products
For Better Health Worldwide

Half Yearly Report

December, 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	
	Mr. Mehtabuddin Feroz	
	Mr. Suhari Mukti	(Alternate: Mr. Abid Hussain)
	Mr. Mohammad Abdullah Feroz	
	Mr. Makio Osaka	(Alternate: Mr. Sajid Ali Khan)
	Mr. Taufiq 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 accounts of the Company for the half year ended December 31, 2017.

Business Review

After having better results in the last quarter, the Company has repaid one more installment of loan obtained from related party (Otsuka Pharmaceutical Factory, Inc., Japan) and has successfully launched Microport Orthopedic Knee Implants; however results of the half year ended are below par resulting in decline of gross profit margin to 26.74% from 30% in the same period last year. The Company is facing severe competition and over supply situation in the market. However, the Company has managed to achieve a sales growth of 6.6% during first half of 2017-18.

During the half year ended, selling and distribution expenses have increased by 6.5% which is in line with the increase in sales. Administrative expenses were controlled with strict cost control; however devaluation of Pak Rupee has become a major contributor in the decline of our operating profit, by 56.46%.

Future Outlook

Keeping in view of current political situation and pressure on currency as well as further expected increase in discount rate by the State Bank of Pakistan, our profitability may be compromised in future. The board is confident that by adopting aggressive selling and marketing strategies, the Company would be able to show good results in times to come.

On behalf of the Board

Mehtabuddin Feroz
Director

Hanif Sattar
Chief Executive Officer

Karachi
Dated: February 20, 2018

ڈائریکٹرز رپورٹ

ڈائریکٹر 31، دسمبر، 2017 کو ختم ہونے والے نصف سال کیلئے کمپنی کے اکاؤنٹس کو پیش کرنے کیلئے پُرمسرّت ہیں۔

کاروباری جائزہ

گزشتہ سہ ماہی میں بہتر نتائج حاصل کرنے کے بعد کمپنی نے متعلقہ پارٹی (اوٹسوکا فارماسیوٹیکل فیکٹری، جاپان) سے حاصل شدہ قرض کی ایک اور واجب الادا قسط ادا کردی ہے اور ساتھ ساتھ مائیکرو پورٹ آرتھوپیڈک گھٹنے کے امپلانٹس کی فروخت کا آغاز کامیابی کے ساتھ کردیا ہے۔ تاہم نصف سال کے نتائج اطمینان بخش نہیں کیونکہ گزشتہ سال اسی مدت میں منافع کا مارجن 30 فیصد سے 26.74 فیصد کم ہوا ہے۔ کمپنی کو مارکیٹ میں دیگر فروخت اور وافر سپلائی کی صورتحال کا شدید سامنا ہے۔ کمپنی نے اس کے باوجود 18-2017 کے پہلے نصف سال کے دوران 6.6 فیصد مصنوعات کی فروخت میں ترقی حاصل کی ہے۔

نصف سال کے اختتام کے دوران، مصنوعات کی فروخت اور پیداواری لاگت میں 6.5 فیصد اضافہ ہوا ہے جو مصنوعات کی فروخت میں اضافے کے عین مطابق ہے۔ انتظامی اور فروخت کے اخراجات کو سختی سے کنٹرول کیا گیا۔ تاہم پاکستانی روپیہ کی تشخیص کی وجہ سے ہمارے آپریٹنگ منافع میں 56.46 فیصد تک کی کمی ہوئی ہے۔

مستقبل کے نقطہ نظر

موجودہ سیاسی صورتحال کے پیشِ نظر اور پاکستانی روپیہ پر بین الاقوامی دباؤ کے ساتھ ساتھ اسٹیٹ بینک کی جانب سے ڈسکاؤنٹ ریٹ میں متوقع اضافہ کو دیکھتے ہوئے مستقبل میں ہمارے منافع میں مزید کمی ہوسکتی ہے۔ اس کے باوجود بورڈ پرُ اعتماد ہے کہ مصنوعات کی جارحانہ فروخت اور مارکیٹنگ کے بہتر حکمت عملی کو اپنانے سے کمپنی آنے والے دنوں میں اچھے نتائج دکھائے گی۔

بورڈ کی جانب سے

مہتاب الدین فیروز
ڈائریکٹر

حنیف ستار
چیف ایگزیکٹو آفیسر

کراچی
مورخہ 20 فروری، 2018

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, 2017 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, 2017 and December 31, 2016 have not been reviewed as we are required to review only the cumulative figures for the half year ended December 31, 2017.

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, 2017 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

A F Ferguson & Co

Chartered Accountants

Engagement Partner: **Noman Abbas Sheikh**

Dated: February 27, 2018

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
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▪ KARACHI ▪ LAHORE ▪ ISLAMABAD

CONDENSED INTERIM BALANCE SHEET
AS AT DECEMBER 31, 2017

	Note	(Unaudited) December 31, 2017	(Audited) June 30, 2017
ASSETS		-----Rupees in '000-----	
Non-current assets			
Property, plant and equipment	4	447,659	467,443
Intangibles		79	100
Long-term loans - considered good		5,242	4,619
Long-term deposits		1,309	1,295
Deferred tax asset - net	5	123,653	129,507
		577,942	602,964
Current assets			
Stores and spares		42,678	47,370
Stock-in-trade - net		483,118	432,101
Trade debts - unsecured - net		259,193	198,403
Loans and advances - considered good		26,539	31,312
Trade deposits, short-term prepayments and other receivables		20,764	22,802
Taxation - net		92,336	102,589
Bank balances		5,563	17,901
		930,191	852,478
Total assets		1,508,133	1,455,442
EQUITY AND LIABILITIES			
EQUITY			
Share capital			
Authorised share capital			
20,000,000 (June 30, 2017: 20,000,000) ordinary shares of Rs 10 each		200,000	200,000
Issued, subscribed and paid-up share capital			
12,100,000 (June 30, 2017: 11,000,000) ordinary shares of Rs 10 each		121,000	110,000
Revenue reserves		49,202	27,864
Shareholders' equity		170,202	137,864
LIABILITIES			
Current liabilities			
Short-term loan from a related party - unsecured	6	367,800	500,613
Trade and other payables		433,143	364,364
Short-term running finance - secured	7	528,958	443,368
Mark-up accrued		8,030	9,233
		1,337,931	1,317,578
Total equity and liabilities		1,508,133	1,455,442
CONTINGENCIES AND COMMITMENTS	8		

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.

Hanif Sattar
Chief Executive Officer

Mehtabuddin Feroz
Director

Sajid Ali Khan
Chief Financial Officer

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2017

	Note	Half year ended December 31,		Quarter ended December 31,	
		2017	2016	2017	2016
		----- Rupees in '000 -----		----- Rupees in '000 -----	
Net sales	9	863,844	809,780	358,193	381,437
Cost of sales		(632,824)	(565,275)	(264,002)	(264,398)
Gross profit		231,020	244,505	94,191	117,039
Selling and distribution expenses		(103,614)	(97,285)	(54,269)	(52,272)
Administrative and general expenses		(39,461)	(44,434)	(18,557)	(25,982)
		87,945	102,786	21,365	38,785
Other income	10	21,886	86,459	5,488	82,147
		109,831	189,245	26,853	120,932
Other expenses	11	(37,720)	(23,612)	(29,476)	(9,612)
Operating income / (loss)		72,111	165,633	(2,623)	111,320
Finance cost		(17,423)	(23,696)	(8,935)	(11,305)
Profit / (loss) for the period before taxation		54,688	141,937	(11,558)	100,015
Taxation - net		(21,113)	(80,193)	8,473	(46,536)
Profit / (loss) for the period after taxation		33,575	61,744	(3,085)	53,479
		------------ Rupees ------------			
Earnings / (loss) per share - basic and diluted - (restated)		2.77	5.10	(0.25)	4.42

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.

Hanif Sattar	**Mehtabuddin Feroz**	**Sajid Ali Khan**
Chief Executive Officer	Director	Chief Financial Officer

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2017

	Half year ended December 31,		Quarter ended December 31,	
	2017	2016	2017	2016
	----- Rupees in '000 -----		----- Rupees in '000 -----	
Profit / (loss) for the period after taxation	33,575	61,744	(3,085)	53,479
Other comprehensive income / (loss):				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit plan	(1,767)	(5,804)	(1,767)	(5,804)
Deferred tax on remeasurements of defined benefit plan	530	1,741	530	1,741
	(1,237)	(4,063)	(1,237)	(4,063)
Total comprehensive income / (loss) for the period	32,338	57,681	(4,322)	49,416

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.

Hanif Sattar	**Mehtabuddin Feroz**	**Sajid Ali Khan**
Chief Executive Officer	Director	Chief Financial Officer

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2017

	Note	Half year ended December 31, 2017	Half year ended December 31, 2016
		----- Rupees in '000 -----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period before taxation		54,688	141,937
Adjustment for non-cash charges and other items:			
Depreciation		47,183	50,927
Amortisation		21	-
Gain on disposal of property, plant and equipment		(1,913)	(986)
(Reversal of provision) / provision for slow moving and obsolete stock-in-trade - net		(82)	397
Workers' Welfare Fund		-	734
Workers' Profits Participant Fund		2,899	7,851
Central Research Fund		390	1,492
Exchange loss / (gain) - net		26,439	(75,839)
Provision for slow moving and obsolete stores and spares		-	2,009
Reversal of provision for stents - net		(12,000)	(732)
Impairment of trade debts - net		1,035	5,455
Mark-up on finances		17,423	23,696
		136,083	156,941
(Increase) / decrease in current assets			
Stores and spares		4,692	3,257
Stock-in-trade		(38,935)	(51,365)
Trade debts - unsecured		(61,825)	(24,803)
Loans and advances		4,773	6,619
Trade deposits, short-term prepayments and other receivables		2,038	(175)
		(89,257)	(66,467)
Increase / (decrease) in current liabilities			
Trade and other payables		57,095	13,742
		(32,162)	(52,725)
Cash generated from operations		103,921	104,216
Interest paid		(18,626)	(28,484)
Taxes paid		(4,476)	(7,141)
Increase in long-term deposits		(14)	(5)
(Increase) / decrease in long-term loans		(623)	264
Net cash generated from operating activities		80,182	68,850
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(28,514)	(11,690)
Proceeds from disposal of property, plant and equipment		3,028	1,641
Net cash used in investing activities		(25,486)	(10,049)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term finance paid		-	(108,333)
Repayment of short-term loan from a related party		(152,624)	(67,689)
Net cash used in from financing activities		(152,624)	(176,022)
Net decrease in cash and cash equivalents		(97,928)	(117,221)
Cash and cash equivalents at the beginning of the period		(425,467)	(537,010)
Cash and cash equivalents at the end of the period	13	(523,395)	(654,231)

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.

Hanif Sattar	**Mehtabuddin Feroz**	**Sajid Ali Khan**
Chief Executive Officer	Director	Chief Financial Officer

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2017

	Issued, subscribed and paid-up capital	Capital reserve	Revenue reserves			Total
		Reserve for issue of bonus shares	General reserve	Accumulated losses	Sub-total	
	---------- Rupees in '000 ----------					
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
Balance as at July 1, 2017	110,000	-	367,500	(339,636)	27,864	137,864
Total comprehensive income for the half year ended December 31, 2017	-	-	-	32,338	32,338	32,338
Transactions with owners recognised directly in equity						
Transfer to reserve for issue of bonus shares	-	11,000	(11,000)	-	(11,000)	-
Interim issue of bonus shares @ 10% for the year ending June 30, 2018 declared on October 25, 2017	11,000	(11,000)	-	-	-	-
Balance as at December 31, 2017	121,000	-	356,500	(307,298)	49,202	170,202

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.

Hanif Sattar	**Mehtabuddin Feroz**	**Sajid Ali Khan**
Chief Executive Officer	Director	Chief Financial Officer

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE HALF YEAR ENDED DECEMBER 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.

As at December 31, 2017, the current liabilities of the Company exceeded its current assets by Rs. 407.740 million (June 30, 2017: Rs. 465.100 million) mainly due to loans obtained by the Company from a group company and short-term running finance facilities obtained from various banks for meeting its working capital requirements. The management believes that the Company is not exposed to any imminent business and cash flow risks and that it will be able to meet all its current and future liabilities as these fall due.

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 9.1), strict control over expenses, reduction in finance cost as a result of final settlement of long-term finance and repayment of short-term loans in future years, attainment of greater sales volume through more robust sales promotion and change in the product mix. The management believes that after the implementation of initiatives stated in the five years business plan the Company may continue to have positive results in future years enabling it to completely set-off the losses incurred in the prior years. However, the price increase factor will continue to play a future profits of the Company.

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 now repealed 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 Companies Ordinance, 1984 has been repealed after the enactment of the Companies Act, 2017. However, as allowed by the SECP vide its circular No. 23 dated 04 October 2017, these financial statements have been prepared in accordance with the provisions of the repealed Companies Ordinance, 1984.

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, 2017.

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, 2017 have been extracted from the audited financial statements of the Company for the year ended June 30, 2017, 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, 2016.

2.2 Accounting convention

This condensed interim financial information has been prepared under the historical cost convention except that obligations inrespect 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, 2017.

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, 2017.

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, 2017.

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, 2017 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

The Companies Act, 2017 (the Act) was enacted on May 30, 2017 superseding the Companies Ordinance, 1984. As stated in note 2.1 above, subsequent to the promulgation of the Companies Act, 2017, the SECP through circular no. 23/2017 dated October 4, 2017 has allowed companies whose financial period closes on or before December 31, 2017 to prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. Accordingly, the condensed interim financial information of the Company for the half year ended December 31, 2017 have been prepared in accordance with the provisions of the repealed Ordinance while the financial statements of the Company for the year ending June 30, 2018 will be prepared in accordance with the provisions of the new Companies Act, 2017. The management is currently in the process of assessing the impact of the provisions of the Act on the financial statements of the Company.

IFRS 9, "Financial Instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard also introduces expanded disclosure requirements and changes in presentation. The new hedge accounting rules align the accounting for hedging instruments more closely with the risk management practices of an entity while the new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39 "Financial Instruments: Recognition and Measurement". It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. The standard has been notified by the Securities and Exchange Commission of Pakistan to be effective for annual periods beginning on or after July 1, 2018 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.

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 has been notified by the Securities and Exchange Commission of Pakistan to be effective for annual periods beginning on or after July 1, 2018. 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, 2018 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, 2017	(Audited) June 30, 2017
4	**PROPERTY, PLANT AND EQUIPMENT**		------Rupees in '000------	
	Operating fixed assets		439,494	458,398
	Capital work-in-progress	4.2	8,165	9,045
			447,659	467,443

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

	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles	Fork Lifter	Total
	Half year ended December 31, 2017					
	Rupees in '000					
Additions	-	21,298	1,901	6,015	180	29,394
Disposals:						
Cost	-	224	277	3,972	-	4,473
Accumulated depreciation	-	(19)	(277)	(3,062)	-	(3,358)
	-	205	-	910	-	1,115

	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles	Fork Lifter	Total
	Half year ended December 31, 2016					
	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)

		Note	(Unaudited) December 31, 2017	(Audited) June 30, 2017
4.2	**Capital work-in-progress**		------Rupees in '000------	
	Stores and spares held for capital expenditure		7,323	8,056
	Others		842	989
			8,165	9,045
5	**DEFERRED TAX ASSET - NET**			
	Deferred tax asset - net	5.1	123,653	129,507

5.1 This includes a deferred tax asset of Rs 123.370 million (June 30, 2017: Rs 136.002) on unused tax losses of Rs 411.232 million (June 30, 2017: Rs 453.339 million) which denotes 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 the losses carried forward from prior years. These business losses include unabsorbed tax depreciation amounting to Rs 396.84 million in respect of which a deferred tax asset of Rs 119.052 million has been recorded. The management believes that it is highly probable that the Company will be able to achieve sufficient taxable income in future years against which the deferred tax asset may be utilised.

		Note	(Unaudited) December 31, 2017	(Audited) June 30, 2017
6	**SHORT-TERM LOAN FROM A RELATED PARTY - UNSECURED**		------Rupees in '000------	
	Loan from Otsuka Pharmaceutical Factory, Inc.	6.1	367,800	500,613

6.1 This represents a foreign currency denominated loan obtained in one tranche of JPY 75 million drawn down on 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 facility was to be repaid within one year of the initial drawn down date.

The JPY 75 million tranche falling due on December 21, 2015 was rolled forward twice for a further period of one year from the date it had fallen due and was repaid early on July 12, 2017. The three tranches of JPY 125 million each falling due on February 25, 2016, April 26, 2016 and July 26, 2016 were rolled forward twice for a further period of one year from their due dates and are still outstanding. The last tranche of JPY 84.5 million falling due on December 15, 2016 was also rolled forward for another year and was repaid on December 16, 2017.

Mark-up is being charged on the outstanding amount at LIBOR + 0.40% (June 30, 2017: LIBOR + 0.40%) per annum and is payable semi-annually in arrears.

	Note	(Unaudited) December 31, 2017	(Audited) June 30, 2017
7 SHORT-TERM RUNNING FINANCE - SECURED		------Rupees in '000------	
From banking companies			
Short-term running finances utilised under mark-up arrangements - secured	7.1	528,958	443,368

7.1 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, 2017	(Audited) June 30, 2017
						-----Rupees in '000-----	
The Bank of Tokyo Mitsubishi UFJ, Limited	525,000	3 months KIBOR + 1.00% p.a.	(a) Joint pari passu hypothecation charge of Rs 500 million on movables and receivables registered with the SECP; (b) Joint pari passu equitable mortgage of Rs 124 million on immovable fixed assets (land and building) duly registered with the SECP; (c) Joint pari passu hypothecation charge over plant and machinery for Rs 254 million duly registered with the SECP; and (d) Guarantee of the parent company amounting to Rs 625 million.	Quarterly	September 30, 2018	369,434	391,755
Bank Alfalah Limited	185,000	3 months KIBOR + 1.50% p.a.	(a) Joint pari passu charge over stocks and receivables of Rs 147 million registered with the SECP; (b) Joint pari passu charge over land and building for Rs 51 million registered with the SECP; and (c) Joint pari passu charge over plant and machinery of Rs 121million registered with the SECP.	Quarterly	January 31, 2018 *	115,840	4,822
The Bank of Punjab	99,600	3 months KIBOR + 1.25% p.a.	Third supplemental joint pari passu letter of hypothecation for Rs 133.334 million over current assets and fixed assets (plant and machinery) and mortgage over fixed assets (land and building) in the proportion of 60:40 inclusive of 25% margin duly registered with SECP.	Quarterly	March 31, 2018	43,684	46,791
	809,600					528,958	443,368

* The facility has temporarily been renewed upto February 28, 2018.

7.2 Details of import letters of credit (sight / usance / acceptance) and letters of guarantee are as follows:

7.2.1 The facilities relating to import letter of credit (sight / usance / acceptance) available from banks as at December 31, 2017 amounted in aggregate to Rs 140 million (June 30, 2017: Rs 190 million). The Company has exercised its option to utilise a part of the total facility limit of Rs 35 million (June 30, 2017: Rs 35 million) for issuance of letter of guarantee only. The amount remaining unutilised at December 31, 2017 was Rs 66.511 million (June 30, 2017: Rs 131.517 million).

7.2.2 In addition, a facility for guarantee available from banks as at December 31, 2017 amounted to Rs 105 million (June 30, 2017: Rs 80 million) of which the Company has an option to utilise Rs 35 million (June 30, 2017: Rs 35 million) for the issuance of letters of credit and Rs 55 million (June 30, 2017: Rs 55 million) for obtaining current finance. The amount remaining unutilised at the half year end was Rs 10.790 million (June 30, 2017: Rs 28.095 million).

8 CONTINGENCIES AND COMMITMENTS

8.1 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 (2017: Rs 164.778 million) 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, discounts and rebates on sales 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). On January 19, 2017 hearing of ATIR was held and on April 10, 2017 an order was served in which the decision of certain items was given in favour of the Company and certain items were remanded back to the ACIR for further examination.

On December 28, 2017, an appeal effect order was passed by the ACIR under section 124/122(5A) of the Income Tax Ordinance, 2001. Through the said order (which is in context of the earlier decision by the ATIR dated April 10, 2017 mentioned above) a demand of Rs 21.408 million was determined. Furthermore, in respect of the matters decided by the ATIR in favour of the Company, the ACIR has filed an appeal in the High Court of Sindh and consequently appeal effect has not been allowed on matters agitated in the SHC.

The Company has filed an appeal against the above order before the Commissioner Inland Revenue (Appeals-II) [CIR(A)] along with the stay application. Upon request, the CIR(A) acceded to grant stay against recovery till February 15, 2018. The appeal has been heard by the CIR(A) and the decision in this regard is expected to be issued shortly. No provision has been recorded in this condensed interim financial information in respect of the said amount as the management expects a favourable outcome of this matter.

8.2 The Company has 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 packing material being imported and purchased by the Company for manufacturing pharmaceutical products. The SHC passed an interim order in favour of the Company maintaining that items fetching lessor customs duty than ten percent ad valorem may not be subject to the levy of sales tax. This matter is at the stage of hearing of applications. Till date the Company has availed benefit under the sales tax exemption amounting to Rs 11.147 million on imported packaging material under the said stay order which includes Rs 3.124 million availed during the half year ended December 31, 2017. 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 half year ended December 31, 2017 in respect of the said amount.

8.3 The Finance Act, 2017 has introduced an amendment in section 5(A) of the Income Tax Ordinance, 2001 whereby tax on undistributed reserves has been substituted by a new concept of tax on undistributed profits for the year. The new regime introduces tax at the rate of seven and a half percent of the accounting profit before tax on every public company, other than a scheduled bank or a modaraba, that derives profit for a tax year but does not distribute at least forty percent of its after tax profits within six months of the end of the tax year through cash or bonus shares. The amendment is applicable for tax year 2017 and onwards.

In this connection, the Company filed a constitutional petition before the Sindh High Court seeking a declaration and injunction therefrom against the Federation of Pakistan and others to suspend the aforementioned imposition of tax on undistributed profit of the Company and has been granted a stay order against the aforementioned tax levy. Accordingly, no provision has been made in this condensed interim financial information during the half year ended December 31, 2017 in respect of tax chargeable on undistributed profits for the year ended June 30, 2017 which amounts to Rs 14.713 million as, based on legal advice, the Company has goods grounds in this case.

		Note	(Unaudited) December 31, 2017	(Audited) June 30, 2017
			------Rupees in '000------	
8.4	Commitments in respect of:			
	Capital expenditure contracted for but not incurred		3,223	2,818
	Letters of credit		38,489	23,483
	Letters of guarantee		94,210	76,905

8.5 There were no other contingencies and commitments outstanding as on December 31, 2017 and June 30, 2017.

		Note	(Unaudited) December 31, 2017	(Unaudited) December 31, 2016
9	**NET SALES**		------Rupees in '000------	
	Sales (net of returns of Rs 8.687 million; 2016: Rs 10.425 million)	9.1	975,785	912,917
	Less: sales tax		(9,480)	(8,463)
			966,305	904,454
	Less: discounts		(102,461)	(94,674)
			863,844	809,780

9.1 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.

10 OTHER INCOME

	Note	2017	2016
		-----Rupees in '000-----	
Income from financial assets and financial liabilities			
Reversal of provision for slow moving and obsolete stock-in-trade		82	-
Liabilities no longer required written back		-	89
Late payment charges from Hospital Supply Corporation - related party		2,180	1,688
Exchange gain - net		-	75,839
		2,262	77,616
Income from assets other than financial assets			
Gain on disposal of fixed assets - net		1,913	986
Scrap sales		5,640	7,053
Reversal of provision for stents held with hospitals		12,000	732
Others		71	72
		19,624	8,843
		21,886	86,459

11 OTHER EXPENSES

	Note	2017	2016
Exchange loss - net		26,439	-
Auditors' remuneration		1,255	1,250
Donations	11.1	1,933	355
Workers' Welfare Fund		-	734
Workers' Profits Participation Fund		2,899	7,851
Central Research Fund		390	1,492
Provision for impairment of trade debts		1,035	5,455
Provision for slow moving and obsolete stock-in-trade		-	397
Provision for slow moving and obsolete stores and spares		-	2,009
Bank charges and commission		605	553
Others		3,164	3,516
		37,720	23,612

11.1 Recipients of donations do not include any donee in whom Chief Executive Officer, directors or their spouse had any interest.

12 TRANSACTIONS WITH RELATED PARTIES

Related parties include Otsuka Pharmaceutical Company Limited the being 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, Shanghai Microport Medical (Group) Company Limited, Shanghai Microport EPMed Tech Company Limited Otsuka Welfare Clinic, etc.), entities under common directorship (namely Hospital Supply Corporation, Uniferoz (Private) Limited and Efroze Chemicals Industries (Private) Limited), Idrees Plastics, staff retirement funds and key management personnel of the company. Details of transactions with related parties and the balances with them as at period / year end are as follows are as follows:

Particulars	(Unaudited) Half year ended December 31, 2017					(Unaudited) Half year ended December 31, 2016
	Parent company	Other associated companies/ undertakings	Key management personnel	Other related parties	Total	
	Rupees in '000					
Transactions during the period						
Net sales (net of discounts allowed Rs 69.668 million; 2016: Rs 68.5	-	380,545	-	-	380,545	392,783
Inventory purchased	31,465	37,983	-	745	70,193	78,595
Sales to Key Management Personnel	-	-	-	-	-	16
Donation to Otsuka Welfare Clinic	-	-	-	-	-	105
Consultancy charges	-	-	2,580	-	2,580	2,440
Remuneration of the key management personnel	-	-	25,439	-	25,439	45,456
Short-term loan obtained from/ (repaid to) a related party	-	(152,624)	-	-	(152,624)	(67,688)
Mark-up expense on short-term loan from a related party	-	1,467	-	-	1,467	1,833
Late payment charges received from Hospital Supply Corporation	-	-	-	2,180	2,180	1,688
Charge relating to staff provident fund	-	-	-	5,053	5,053	4,542
Charge relating to staff gratuity fund	-	-	-	3,679	3,679	3,535

Particulars	(Unaudited) As at December 31, 2017					(Audited) June 30, 2017
	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	-	162,016	-	-	162,016	142,637
Payable to Hospital Supply Corporation	-	-	-	-	-	33
Payable to Otsuka Pharmaceutical Company Limited, Japan	32,863	-	-	-	32,863	-
Payable to Shanghai Microport EPMed Tech Co., Limited	-	2,371	-	-	2,371	4,116
Payable to Shanghai Microport Medical (Group) Company Limited	-	22,901	-	-	22,901	46,186
Payable to Otsuka Pharmaceutical Factory, Inc.	-	-	-	-	-	1,110
Payable to Thai Otsuka Pharmaceutical Company Limited, Thailand	-	9,353	-	-	9,353	10,545
Payable to Idrees Plastics	-	163	-	-	163	-
Loan from Otsuka Pharmaceutical Factory, Inc.	-	367,800	-	-	367,800	500,613
Advance from key management personnel	-	-	1,018	-	1,018	1,681
Payable to Employees' Provident Fund	-	-	-	2,426	2,426	-
Payable to Employees' Gratuity Fund	-	-	-	5,446	5,446	3,072
Payable to P.T. Otsuka Indonesia	-	3,313	-	-	3,313	3,146
Payable to Shareholder	-	-	-	363	363	-
Provision for Workers' Profits Participation Fund	-	-	-	2,899	2,899	10,421

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.

13 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, 2017	(Unaudited) December 31, 2016
	----Rupees in '000----	
Bank balances	5,563	8,962
Short-term running finance utilised under mark-up arrangements	(528,958)	(663,193)
	(523,395)	(654,231)

14 SEGMENT INFORMATION

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

14.2 Sales from Intravenous Solutions represent 83.35 percent while sales from others represent 16.65 percent (December 31, 2016: 83.01 percent and 16.99 percent) respectively of the total sales of the Company.

14.3 The geographic segmentation of sales is as follows:

	(Unaudited) December 31, 2017	(Unaudited) December 31, 2016
	------- In percent -------	
Pakistan	99.16	99.45
Afghanistan	0.84	0.55

14.4 Sales to Hospital Supply Corporation (a related party of the Company) which is the sole distributor in the southern region was around 44.05 percent during the period ended December 31, 2017 (December 31, 2016: 48.50 percent).

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

15 PLANT CAPACITY AND PRODUCTION

	Half year ended December 31, 2017		Half year ended December 31, 2016	
	Capacity*	Actual production	Capacity*	Actual production
	------------------- million bottles -------------------			
I.V. solutions	15.7	12.4	16.0	9.9
Plastic ampoules	7.4	5.7	6.0	4.8
	23.1	**18.1**	**22.0**	**14.7**

The Company's underutilised capacity was mainly due to non-utilization of Saturdays.

16 FAIR VALUE MEASUREMENT

Fair value is the amount for which an asset could be exchanged, or liability 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, 2017 and June 30, 2017, 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.

17 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.

18 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on **February 20, 2018** by the Board of Directors of the Company.

19 GENERAL

- Figures of the condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarters ended December 31, 2017 and December 31, 2016 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 unless otherwise stated.

Hanif Sattar	**Mehtabuddin Feroz**	**Sajid Ali Khan**
Chief Executive Officer	Director	Chief Financial Officer

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